GEDEON RICHTER PLC.

AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Gedeon Richter Plc.

Opinion

We have audited the accompanying consolidated financial statements of Gedeon Richter Plc. ("the Company") and its subsidiaries (together "the Group") which comprise the consolidated balance sheet as of 31 December 2016 (in which the consolidated balance sheet total is MHUF 813,877), the consolidated income statement, the consolidated statement of comprehensive income (in which the total comprehensive income for the year is MHUF 74,061), the consolidated statement of changes in equity, the consolidated cash flows statement for the year then ended and the notes to the consolidated financial statements including a summary of the significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with Hungarian National Standards on Auditing ("HNSA") and with applicable laws and regulations in force in Hungary. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Hungary. We have fulfilled our other ethical responsibilities in accordance with those requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Impairment test on goodwill The Group has goodwill balance of MHUF 68,632 as of 31 December 2016. See the notes in the accounting policy section VI, Note 3.1 (key sources of estimation uncertainty); and Note 18 of the consolidated financial statements for management's disclosures on the balances, judgments and estimates on goodwill.	We focused on goodwill recognized as a result of the acquisitions of PregLem S.A., GRMed Company Ltd., GR Mexico and Gedeon Richter Rxmidas Co. Ltd. which together represent more than 96% of the entire goodwill balance of the Group. Our audit procedures included challenging management on the appropriateness of the impairment models and reasonableness of the assumptions used by performing the following:

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Key audit matter	*How our audit addressed the key audit matter*
Goodwill must be tested for impairment at least on an annual basis. The determination of recoverable amount, being the higher of value in-use and fair value less costs to dispose, requires judgement from management when identifying and valuing the relevant cash-generating units. Recoverable amounts are based on management's view of variables and market conditions such as future price and volume growth rates, the timing of future operating expenditure, and the most appropriate discount and long term growth rates. We focused on this area because of the significance of the goodwill balance and because the impairment assessment involves significant amount of management's judgements about the future results and the discount rates applied to future cash flow forecast.	• Benchmarking the Group's key market-related assumptions in the models against external data. Key assumptions that we focused on were discount rates, long term growth rates and foreign exchange rates. Where it was considered necessary we involved our valuation experts; • Assessing the reliability of cash flow forecasts by checking actual past performance and comparing to previous forecasts; • Testing the mathematical accuracy and checking sensitivity analyses of the models; • Understanding the commercial prospects of the assets, and where possible comparing assumptions to external data sources; • In respect of the goodwill arising from current year's acquisition (Gedeon Richter Rxmidas Co. Ltd.) we focused on whether there were any significant adverse changes in the circumstances since the acquisition date. We have recalculated the year end foreign exchange translation of the goodwill balance and compared our calculation to the balance recorded by the Group. We have read disclosures in Note 3.1 and Note 18 and compared to the requirements in IAS 1 and IAS 36. Based on our procedures, we uoted no material exceptions and cousidered management's key assumptions to be within reasonable ranges.
Follow up accounting of business combinations other than impairment test on goodwill. The Group has acquired several businesses in prior years where the purchase price was contingent on future events. The purchase price of the acquisition of GRMed Company Ltd., GR Mexico and Mediplus (Economic Zone) N.V was not fully settled at the beginning of the current period. See the notes in the accounting policy section XII, Notes 3.1 (key sources of estimation uncertainty); and 11 of the consolidated financial statements for management's disclosures of the balances, judgments and estimates on contingent consideration. We focused especially on the purchase price of the acquisition of GRMed Company Ltd. due to the significance of	IFRS 3 Business Combinations standard requires specific accounting for contingent purchase prices. Therefore, we assessed the compliance of the accounting policy applied by the Group that is disclosed in Note 2 section XII. Since the acquisition agreements were signed in prior periods, we inquired management if there were any amendments made to the agreements. Further audit procedures included assessing the reasonableness of the assumptions used by performing the following procedures in respect of the purchase price of GRMed Company Ltd.: • Comparing the amount of the liability to the present valne of the cash flow forecast of the predetermined prodncts approved by the board of GRMed Company Ltd.; • Recalculating the change in the liability to change in differeut components including effect of

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Key audit matter	*How our audit addressed the key audit matter*
the balance and because the acquisition agreement determined a portion of the purchase price to be contingent upon future performance of predetermined products. The valuation of the liability therefore involved significant amount of management's judgement about the future results and the discount rates applied to future cash flow forecast. The last instalment of this purchase price was due in the first half of 2017. The maximum exposure from the contingent purchase price originating from other acquisitions (GR Mexico and Mediplus (Economic Zone) N.V) is not material as disclosed in Note 3.1 and 11.	payment, unwinding of the interest, the change in the foreign currency rate and the effect of change in cash-flow estimates; • Benchmarking the Group's key market-related assumptions in the models, including discount rates and foreign exchange rates against external data. We involved valuation experts where it was considered necessary. • Comparing the liability presented with the payment made in 2017. We have assessed the classification of the liability in the consolidated balance sheet. We have read disclosures related to contingent considerations presented in Note 3.1 and Note 11 to the consolidated financial statements. Based on our procedures, we noted no material exceptions and considered management's key assumptions to be within reasonable ranges.
Accounting for acquisitions The Group has performed two significant acquisitions in the reporting period: acquiring 100% of Finox Holding AG and the remaining 50% of Gedeon Richter Rxmidas Co Ltd. as disclosed in Note 36 to the consolidated financial statements. The acquisition of Finox Holding AG resulted in a gain from bargain purchase of MHUF 268. As a result of the purchase price allocation the Group recognized intangible assets in the amount of MHUF 52,513. The acquisition of Gedeon Richter Rxmidas Co Ltd. resulted in recognition of a gain of MHUF 3,453 relating to the remeasurement of previously held interest to fair value as at the acquisition date and recognition of goodwill in the amount of MHUF 7,226 presented in Notes 5 and 36 respectively. We focused on this area due to the significance of the transactions and because such agreements often require complex accounting knowledge and significant amount of judgement from	We have read the share purchase agreements, checked the bank statements related to the acquisitions and assessed the appropriateness of the accounting of the acquisitions. Relating to the Finox Holding AG acquisition we have assessed management's treatment of identifying a separate asset (a loan of the acquirer) and eliminating during the consolidation as disclosed in Note 36. Relating to the acquisition of Gedeon Richter Rxmidas Co Ltd., we have assessed the appropriateness of management's approach of remeasuring previously held interest and recognizing the resulting gain in income statement as disclosed in Note 5. We have challenged management on the reasonableness of assumptions used to determine the fair value of the intangible asset, especially relating to BEMFOLA. We performed following procedures: • Benchmarking the Group's key market-related assumptions in the models, including discount rates and foreign exchange rates, against external data. We involved our valuation experts where it was considered necessary; • Testing the mathematical accuracy and checking sensitivity analyses of the model; and • Understanding the commercial prospects of the asset, and where possible comparing the assumptions to external data sources.

Key audit matter	*How our audit addressed the key audit matter*
the management. Additionally, the determination of the fair value of the intangible asset BEMFOLA involves managements' judgements about the future results and the discount rates applied to future cash flow forecast.	Based on our procedures no material exceptions were identified.

Other information: the consolidated business report and the annual report

The other information comprises the consolidated business report and the annual report of the Group. Management is responsible for the preparation of the consolidated business report and the annual report in accordance with the provisions of the Act C of 2000 on Accounting ("Accounting Act") in force in Hungary and other relevant regulations. Our opinion on the consolidated financial statements does not cover the consolidated business report and the annual report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the consolidated business report and the annual report and, in doing so, consider whether the consolidated business report and the annual report is materially inconsistent with the consolidated financial statements or our knowledge obtaiued in the audit, or otherwise appears to be materially misstated.

Based on the Accounting Act, in respect of the consolidated business report, our responsibility is to read the consolidated business report identified above and, in doing so, consider whether the consolidated business report has been prepared in accordance with the provisions of the Accounting Act and other relevant regulations, if any.

Because the Company's transferable securities are admitted to trading on a regulated market of a Member State of the European Economic Area, our opinion on the business report shall cover the information prepared under Paragraphs e) and f) of Subsection (2) of Section 95/B of the Accounting Act, and state whether the information referred to in Paragraphs a)-d) and g) of Subsection (2) of Section 95/B has been provided.

In our opinion, the 2016 consolidated business report of the Group, also including the information prepared under Paragraphs e) and f) of Subsection (2) of Section 95/B, is consistent with the 2016 consolidated financial statements and the consolidated business report has been prepared in accordance with the Accounting Act.

As there is no other regulation prescribing further requirements for the consolidated business report, in respect of this, our opinion on the consolidated business report does not express the opinion required by Section (5) h) of 156 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated business report and the annual report, and shall give an indication of the nature of any such misstatements. We have nothing to report in this respect.

Further, we state that the information referred to in Paragraphs a)-d) and g) of Subsection (2) of Section 95/B of the Accounting Act has been provided.

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Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HNSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HNSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opiuion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going coucern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw atteution in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtaiued up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall preseutation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Budapest, 22 March 2017

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GEDEON RICHTER PLC.

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

Erik Bogsch
Managing Director

22 March, 2017

Gedeon Richter Plc.

CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Income Statement

for the year ended 31 December

	Notes	2016 HUFm	2015 HUFm Restated*
Revenues	5	**389,690**	**365,220**
Cost of sales		(164,002)	(144,611)
Gross profit		**225,688**	**220,609**
Sales and marketing expenses		(107,564)	(98,310)
Administration and general expenses		(20,339)	(19,397)
Research and development expenses		(35,153)	(34,822)
Other income and other expenses (net)	5	(8,016)	(1,398)
Profit from operations	5	**54,616**	**66,682**
Finance income	7	26,600	24,230
Finance costs	7	(14,788)	(32,537)
Net financial income/(loss)	7	**11,812**	**(8,307)**
Share of profit of associates and joint ventures	14	1,798	1,502
Profit before income tax		**68,226**	**59,877**
Income tax	8	(1,203)	(6,014)
Profit for the year		**67,023**	**53,863**
Profit attributable to			
Owners of the parent		66,200	53,863
Non-controlling interest		823	0
Earnings per share (HUF)	9		
Basic and diluted		356	291

* See Note 39 for details regarding the restatement.

The notes on pages 10 to 89 form an integral part of the Consolidated Financial Statements.

22 March, 2017

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Managing Director

Consolidated Statement of Comprehensive Income

for the year ended 31 December

	Notes	2016 HUFm	2015 HUFm Restated*
Profit for the year		**67,023**	**53,863**
Items that will not be reclassified to profit or loss			
Actuarial loss on retirement defined benefit plans	28	(44)	(22)
		(44)	**(22)**
Items that may be subsequently reclassified to profit or loss			
Exchange differences arising on translation of foreign operations		1,546	7,179
Exchange differences arising on translation of associates and joint ventures	14	34	51
Revaluation of available for sale investments	24	5,502	1,447
		7,082	**8,677**
Other comprehensive income for the year		**7,038**	**8,655**
Total comprehensive income for the year		**74,061**	**62,518**
Attributable to:			
Owners of the parent		73,203	62,404
Non-controlling interest		858	114

* See Note 39 for details regarding the restatement.

The notes on pages 10 to 89 form an integral part of the Consolidated Financial Statements.

22 March, 2017

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Managing Director

Consolidated Balance Sheet

	Notes	31 December 2016 HUFm	31 December 2015 HUFm Restated*	1 January 2015 HUFm Restated*
ASSETS				
Non-current assets				
Property, plant and equipment	12	191,002	177,950	172,174
Goodwill	18	68,632	64,888	61,086
Other intangible assets	12	192,677	150,827	152,580
Investments in associates and joint ventures	14	8,541	7,140	5,408
Other financial assets	15	32,864	26,414	24,184
Deferred tax assets	16	5,416	8,063	9,014
Loans receivable	17	4,799	3,683	3,921
		503,931	**438,965**	**428,367**
Current assets				
Inventories	19	81,246	64,680	61,910
Trade receivables	20	116,223	92,539	95,255
Other current assets	21	14,991	13,927	13,591
Investments in securities	22	751	3,970	20,873
Current tax asset	16	682	539	603
Cash and cash equivalents	23	96,053	132,374	97,940
		309,946	**308,029**	**290,172**
Total assets		**813,877**	**746,994**	**718,539**

* See Note 39 for details regarding the restatement.

The notes on pages 10 to 89 form an integral part of the Consolidated Financial Statements.

22 March, 2017

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Managing Director

Consolidated Balance Sheet - continued	Notes	31 December 2016 HUFm	31 December 2015 HUFm Restated*	1 January 2015 HUFm Restated*
EQUITY AND LIABILITIES				
Capital and reserves				
Equity attributable to owners of the parent				
Share capital	24	18,638	18,638	18,638
Treasury shares	25	(1,285)	(3,206)	(4,881)
Share premium		15,214	15,214	15,214
Capital reserves		3,475	3,475	3,475
Foreign currency translation reserves	24	18,478	16,478	9,700
Revaluation reserve for available for sale investments	24	8,825	3,323	1,876
Retained earnings		614,657	561,330	513,258
		678,002	**615,252**	**557,280**
Non-controlling interest	13.1	3,871	3,137	2,932
		681,873	**618,389**	**560,212**
Non-current liabilities				
Borrowings	29	28,874	37,188	44,155
Deferred tax liability	16	5,962	8,939	8,876
Other non-current liabilities and accruals	30	4,448	7,817	10,056
Provisions	28	3,508	2,928	2,770
		42,792	**56,872**	**65,857**
Current liabilities				
Borrowings	29	7,776	6,523	14,525
Trade payables	26	45,926	38,209	36,335
Current tax liabilities	16	655	425	281
Other payables and accruals	27	32,929	24,669	40,222
Provisions	28	1,926	1,907	1,107
		89,212	**71,733**	**92,470**
Total equity and liabilities		**813,877**	**746,994**	**718,539**

* See Note 39 for details regarding the restatement.

The notes on pages 10 to 89 form an integral part of the Consolidated Financial Statements.

22 March, 2017

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Managing Director

Consolidated Statement of Changes in Equity
for the year ended 31 December 2015

	Notes	Share capital	Share premium	Capital reserves	Treasury shares	Revaluation reserve for available for sale investments	Foreign currency translation reserves	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
		HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Balance at 1 January 2015		**18,638**	**15,214**	**3,475**	**(4,881)**	**1,876**	**9,700**	**514,536**	**558,558**	**3,172**	**561,730**
Impact of restatement*		-	-	-	-	-	-	(1,278)	**(1,278)**	(240)	**(1,518)**
Balance at 1 January 2015 (as restated)		**18,638**	**15,214**	**3,475**	**(4,881)**	**1,876**	**9,700**	**513,258**	**557,280**	**2,932**	**560,212**
Profit for the year		-	-	-	-	-	-	53,863	**53,863**	0	**53,863**
Exchange differences arising on translation of foreign operations		-	-	-	-	-	6,727	338	**7,065**	114	**7,179**
Exchange differences arising on translation of associates and joint ventures	14	-	-	-	-	-	51	-	**51**	-	**51**
Actuarial loss on defined benefit plans	28	-	-	-	-	-	-	(22)	**(22)**	-	**(22)**
Revaluation of available for sale investments	24	-	-	-	-	1,447	-	-	**1,447**	-	**1,447**
Comprehensive income for year end 31 December 2015 (as restated)		-	-	-	-	**1,447**	**6,778**	**54,179**	**62,404**	**114**	**62,518**
Net treasury shares transferred and purchased	25	-	-	-	1,675	-	-	-	**1,675**	-	**1,675**
Ordinary share dividend for 2014	31	-	-	-	-	-	-	(6,150)	**(6,150)**	-	**(6,150)**
Dividend paid to non-controlling interest		-	-	-	-	-	-	-	-	(90)	**(90)**
Additional paid in capital to subsidiaries		-	-	-	-	-	-	-	-	181	**181**
Recognition of share-based payments	24	-	-	-	-	-	-	43	**43**	-	**43**
Transactions with owners in their capacity as owners for year end 31 December 2016 (as restated)		-	-	-	**1,675**	-	-	**(6,107)**	**(4,432)**	**91**	**(4,341)**
Balance at 31 December 2015 (as restated)		**18,638**	**15,214**	**3,475**	**(3,206)**	**3,323**	**16,478**	**561,330**	**615,252**	**3,137**	**618,389**

* See Note 39 for details regarding the restatement.

The notes on pages 10 to 89 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2016

	Notes	Share capital	Share premium	Capital reserves	Treasury shares	Revaluation reserve for available for sale investments	Foreign currency translation reserves	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
		HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Balance at 1 January 2016 (as restated)		**18,638**	**15,214**	**3,475**	**(3,206)**	**3,323**	**16,478**	**561,330**	**615,252**	**3,137**	**618,389**
Profit for the year		-	-	-	-	-	-	66,200	**66,200**	823	**67,023**
Exchange differences arising on translation of foreign operations		-	-	-	-	-	1,966	(455)	**1,511**	35	**1,546**
Exchange differences arising on translation of associates and joint ventures	14	-	-	-	-	-	34	-	**34**	-	**34**
Actuarial loss on defined benefit plans	28	-	-	-	-	-	-	(44)	**(44)**	-	**(44)**
Revaluation of available for sale investments	24	-	-	-	-	5,502	-	-	**5,502**	-	**5,502**
Comprehensive income for year end 31 December 2016		-	-	-	-	**5,502**	**2,000**	**65,701**	**73,203**	**858**	**74,061**
Net treasury shares transferred and purchased	25	-	-	-	1,921	-	-	-	**1,921**	-	**1,921**
Ordinary share dividend for 2015	31	-	-	-	-	-	-	(13,419)	**(13,419)**	-	**(13,419)**
Dividend paid to non-controlling interest		-	-	-	-	-	-	-	-	(139)	**(139)**
Additional paid in capital to subsidiaries		-	-	-	-	-	-	-	-	19	**19**
Recognition of share-based payments	24	-	-	-	-	-	-	1,045	**1,045**	-	**1,045**
Sale of subsidiary		-	-	-	-	-	-	-	-	(4)	**(4)**
Transactions with owners in their capacity as owners for year end 31 December 2016		-	-	-	**1,921**	-	-	**(12,374)**	**(10,453)**	**(124)**	**(10,577)**
Balance at 31 December 2016		**18,638**	**15,214**	**3,475**	**(1,285)**	**8,825**	**18,478**	**614,657**	**678,002**	**3,871**	**681,873**

The notes on pages 10 to 89 form an integral part of the Consolidated Financial Statements.

Consolidated Cash Flow Statement
for the year ended 31 December

	Notes	2016 HUFm	2015 HUFm Restated*
Operating activities			
Profit before income tax		68,226	59,877
Depreciation and amortisation	5	32,895	31,248
Non-cash items accounted through Total Comprehensive Income	14, 30	(6,725)	(1,850)
Year-end foreign exchange translation difference of borrowings	7	(245)	(243)
Net interest and dividend income	7	(4,531)	(1,482)
Changes in provision for defined benefit plans	28	(15)	158
Increase on changes of property, plant and equipment and intangible assets		(461)	(830)
Impairment recognised on intangible assets	12	3,873	3,484
Impairment on investments		63	-
Expense recognised in respect of equity-settled share based payments	24	4,724	4,260
Movements in working capital			
(Increase)/decrease in trade and other receivables		(18,095)	2,773
Increase in inventories		(11,446)	(2,770)
Increase in payables and other liabilities		16,358	7,231
Interest expense		(827)	(1,160)
Income tax paid	16	(6,375)	(5,649)
Net cash flow from operating activities		**77,419**	**95,047**
Cash flow from investing activities			
Payments for property, plant and equipment**		(30,551)	(27,708)
Payments for intangible assets**		(5,902)	(5,594)
Proceeds from disposal of property, plant and equipment		401	1,332
Payments to acquire financial assets		(88)	(2,043)
Proceeds on sale or redemption on maturity of financial assets		3,950	18,429
Disbursement of loans net		(614)	(836)
Interest income	7	2,566	2,641
Dividend income	7	2,792	1
Net cash outflow on acquisition of subsidiaries	27,36,30	(63,555)	(25,322)
Net cash flow to investing activities		**(91,001)**	**(39,100)**
Cash flow from financing activities			
Purchase of treasury shares	25	(1,758)	(2,542)
Dividend paid	31	(13,563)	(6,245)
Repayment of borrowings	29	(6,813)	(14,628)
Proceeds from borrowings		-	2
Net cash flow to financing activities		**(22,134)**	**(23,413)**
Net (decrease)/increase in cash and cash equivalents		**(35,716)**	**32,534**
Cash and cash equivalents at beginning of year		**132,374**	**97,940**
Effect of foreign exchange rate changes on the balances held in foreign currencies		(605)	1,900
Cash and cash equivalents at end of year		**96,053**	**132,374**

* See Note 39 for details regarding the restatement.
** The Payments for property plant and equipment and the Payments for intangible assets cannot be directly reconciled to the Note 12 Transfers and capital expenditure row, because the later one contains non-material, non-cash addition of the assets, including transfers.

The notes on pages 10 to 89 form an integral part of the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. General background

I) Legal status and nature of operations
Gedeon Richter Plc. ("the Company"/"Parent Company"), the immediate parent of the Group (consisting of the Parent Company and its subsidiaries), a manufacturer of pharmaceutical products based in Budapest, was established first as a Public Limited Company in 1923. The predecessor of the Parent Company was founded in 1901 by Mr Gedeon Richter, when he acquired a pharmacy. The Company is a public limited company, which is listed on Budapest Stock Exchange. The Company's headquarter is in Hungary and its registered office is at Gyömrői út 19-21, 1103 Budapest.

II) Basis of preparation
The Consolidated Financial Statements of Richter Group have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (EU) (hereinafter "IFRS"). The Consolidated Financial Statements comply with the Hungarian Accounting Law on consolidated financial statements, which refers to tbe IFRS as endorsed by the EU.

The Consolidated Financial Statements have been prepared on the historical cost basis of accounting, except for certain financial instruments which are valued at fair value. The amounts in the Consolidated Financial Statements are stated in millions of Hungarian Forints (HUFm) unless stated otherwise. The members of the Group maintain accounting, financial and other records in accordance with relevant local laws and accounting requirements. In order to present financial statements which comply with IFRS, appropriate adjustments have been made by the members of the Group to the local statutory accounts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements, are disclosed in Note 3.

These financial statements present the consolidated financial position of the Group, the result of its activity and cash flows, as well as the changes in shareholder's equity. The Group's consolidated companies are shown in Notes 13, 14.

III) Adoption of new and revised Standards

A) The following amended standards became effective for the Group from 1 January 2016, but did not have any material impact on the Group.

- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued in May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued in May 2014 and effective for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued in June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued in August 2014 and effective for annual periods beginning I January 2016).
- Annual Improvements to IFRSs 2014 (issued in September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014, and effective for annual periods on or after 1 January 2016).

B) Certain new standards and interpretations have been issued that are not yet effective, and which the Group has not early adopted.

- IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

  - Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
  - Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
  - Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
  - IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
  - Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

  The Group has started the assessment of the impact of IFRS 9 on financial instruments out of which the new impairment model of the standard will have the most significant effect for the Group.

- IFRS 15, Revenue from Contracts with Customers (issued in May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group has started the assessment of the impact of IFRS 15. The Group is focusing in the initial phase of the assessment on the effect of the new standard on licensing arrangements and transactions containing variable considerations.

- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018, the EU has not yet endorsed the amendment). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The Group is currently assessing the impact of the amendment on its financial statements.

- IFRS 16, Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019, the EU has not yet endorsed the new standard). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is presenting operating lease commitments according to IAS 17 in Note 35. Taking into consideration the amount of these commitments, the effect of the application of IFRS 16 will be moderate on the financial statements.

- IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018 the EU has not yet endorsed the interpretation). The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary. The Group is currently assessing the impact of the amendments on its financial statements, the effect of the application of IFRIC 22 is expected to be moderate on the financial statements.

C) The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- IFRS 14, Regulatory deferral accounts (issued in January 2014, the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard).

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB. The EU endorsement is postponed as IASB effective date is deferred indefinitely.)

- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017, the EU has not yet endorsed the changes).

- Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017, the EU has not yet endorsed the changes).

- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018, the EU has not yet endorsed the changes).

- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 the EU has not yet endorsed the changes).

- Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28, the EU has not yet endorsed the changes).

- Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018, the EU has not yet endorsed the changes).

Other new/amended standards/interpretations are not expected to have a significant effect for the Group.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

I) Basis of Consolidation

The Consolidated Financial Statements incorporate the financial statements of the Parent Company and entities directly or indirectly controlled by the Parent Company (its subsidiaries), the joint arrangements (joint ventures) and those companies where the Parent Company has significant influence (associated companies). The Group controls an entity when the Group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

II) Investments in joint ventures and associated companies

A joint venture is a contractual arrangement whereby the Group and the parties undertake an economic activity that is subject to joint control.

Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses.
Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group assesses whether the contractual arrangement gives all the parties control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement.

Since all of the joint arrangements are structured through separate vehicle and neither the legal form nor the terms of the arrangement or other facts and circumstances provides rights to the assets and obligations of the company (but to the net assets), therefore the companies are classified as joint ventures.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates and joint ventures includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' or joint ventures' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or the joint venture.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dividends received from associates or joint ventures reduce the carrying value of the investment in the associates and joint ventures.

Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates and joint ventures are recognised in the income statement.

III) Transactions and balances in foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Consolidated Financial Statements, the results and financial position of each Group entity are expressed in Hungarian Forints (HUF), which is the functional currency of the Parent Company and the presentation currency for the Consolidated Financial Statements.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange gains and losses are presented in the income statement within finance income or finance expense.

On consolidation, the assets and liabilities of the Group's foreign operations are translated at the exchange rate of the Hungarian National Bank rates prevailing on the balance sheet date except for equity, which is translated at historic value. Income and expense items are translated at the average exchange rates weighted with monthly turnover. Exchange differences arising, if any, are recognised in other comprehensive income.
Such translation differences are recognised as income or as expenses in the period in which the Group disposes of an operation.
Conversion into Hungarian Forints of Group's foreign operations that have a functional currency not listed by the National Bank of Hungary is made at the cross rate calculated from Bloomberg's published rate of the given currency to the USD and NBH's rate of the HUF to the USD. The method of translation is the same as mentioned above.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

IV) Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue on sales transactions is recognised upon fulfilment the terms of sales contracts.

A) Sales of goods
The Group manufactures and sells wide range of pharmaceuticals in the wholesale and retail market.

The Richter Group operates a chain of pharmacies – mainly located in Romania – and several distribution companies to convey products to consumers. Most of their turnover is generated by products other than those manufactured by the Group.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

B) Sales of services
Revenue, on rendering services, such as pharmaceutical and biotech products trading, marketing services, transportation, is recognised at entities operating in Other segment of the Group. For sales of services, revenue is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of the actual service provided as a proportion of the total services to be provided.

C) Profit sharing
Sales revenue includes also Profit sharing income, paid by the partners according to agreed terms. These partners are providing information on regular basis to the Group on their turnover and assess the Group's share of the profit of these transactions. Revenue from profit sharing agreements are accounted in the accounting period when the underlying sales is performed.

D) Royalties
Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement. In case the Company is achieving a one off royalty revenue by selling a license to the customer, the revenue is recognised in the period when the risks and rewards are transferred to the other party. In case the Company is obtaining regular revenue based on the sales or other activity of the other party, revenue is recognised in the period when the underlying activity is performed by the customer.

E) Interest income
Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

F) Dividend income
Dividend income is recognised when the right to receive payment is established.

V) Property, plant and equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period.

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment loss.

Depreciation is charged so as to write the cost of assets (less residual value) off from Balance Sheet on a straight-line basis over their estimated useful lives. The Group uses the following depreciation rates:

Name	Depreciation
Land	0%
Buildings	1-4.5%
Plant and equipment	
Plant and machinery	*5-33.33%*
Vehicles	*10-20%*
Office equipments	*8-33.33%*

The depreciation amount for a period of a property, plant and equipment shall be determined based on its expected usage, useful life, physical wear and tear and estimated residual value. Depreciation is calculated monthly and recognised as cost of sales, sales and marketing expenses or administration and general expenses, depending on the purpose of usage of underlying assets, in the Consolidated Income Statement or recognised as inventories in the Consolidated Balance Sheet.

Assets in the course of construction are not depreciated. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. Repair and maintenance costs are not capitalised.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Initial cost of construction in progress shall contain all cost elements that are directly attributable to its production or installation during the reporting period.

The residual value of property, plant and equipment with the exception of cars is zero, because of the nature of the activity of the Group. Residual value of cars is 20% of their initial cost.

The depreciation period and the depreciation method for property, plant and equipment shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, then depreciation calculated for current and future periods shall be adjusted accordingly.

VI) Goodwill

Goodwill arising on consolidation represents the excess of the fair value of consideration transferred over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.
On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. This later method was applied for all of the acquisitions of the Group so far.
Goodwill is recognised separately in the Consolidated Balance Sheet and is not amortised but is reviewed for impairment annually in line with IAS 36. In each reporting period the Group reviews its goodwill for possible impairment. For impairment testing goodwill is allocated to the Group's individual or group of cash generating units (CGU). The recoverable amount of the cash generating unit is the higher of fair value less cost to sell or its value in use, which is determined by Discounted Cash Flow method.

If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. The impairment loss is recognised in the 'Other income and other expenses (net)' line in the Consolidated Income Statement. The impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

When in the case of a bargain purchase, the consideration transferred is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Consolidated Income Statement within Other income and other expenses (net).

Goodwill arising on acquisitions are recorded in the functional currency of the acquired entity and translated at year end closing rate.

VII) Intangible assets

Purchase of trademarks, licenses, patents and software from third parties are capitalised and amortised if it is likely that the expected future benefits that are attributable to such an asset will flow to the entity, and costs of these assets can be reliably measured.
The Group is using the straight line method to amortize the cost of intangible assets over their estimated useful lives as follows:

Name	Amortization
Rights	
Property rights (connected with properties)	*5%*
Other rights (licenses)	*5-50%*
Intellectual property	4-50%
Research and development	5-50%
ESMYA, BEMFOLA	4%

Individually significant intangible assets are presented in Note 12. The purchased licenses are amortized based on the contractual period, resulting in amortization rates within the range presented in the table above.

Amortization is recognised as Cost of sales, Sales and marketing expenses, Administration and general expenses and Research and development expenses in the Consolidated Income Statement depending on the function of the intangible assets.

The amortization period and the amortization method for an intangible asset shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, then amortization calculated for current and future periods shall be adjusted accordingly. Because of the nature of the business and intangible assets, the residual value has been usually determined to be nil.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date.
Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

In the Annual Report the term of ESMYA® is used for indication of the brand name of the product containing ulipristal acetate on Gynaecology therapeutic area in uterine myoma indication, while the terminology of ESMYA refers to the intangible asset recognized by Richter (relating to the EU/USA region as described in Note 12) at the acquisition of PregLem and presented in the Consolidated Balance Sheet.

VIII) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the members of the Group review the carrying amount of tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indications exist, the recoverable amount of the asset is estimated in order to determine the amount of such an impairment loss. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss as "Other income and other expenses (net)".

The Group shall assess at each balance sheet date whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset, and the carrying value of the asset shall be increased to this value. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) if no impairment loss had been recognized for the asset in prior years. A reversal of an impairment loss for an asset shall be recognized immediately in profit or loss and presented as "Other income and other expenses (net)".

IX) Research and development
Cost incurred on development projects are recognised as intangible assets when they meet the recognition criteria of IAS 38 "Intangible Assets":

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- The Group's intention to complete the intangible asset and use or sell it
- The Group's ability to use or sell the intangible asset
- To prove that the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate:
  - the existence of a market for the output of the intangible asset or for the intangible asset itself or,
  - if it is to be used internally, the usefulness of the intangible asset
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset. The way and timing of the use of such resources can be presented.
- The development costs of the intangible asset can be reliably measured.

Amortization shall begin when the asset is available for use. The useful life of these assets is assessed individually and amortized based on facts and circumstances. The Group is using the straight line method to amortize R&D over the estimated useful life.

R&D costs that do not meet these recognition criteria are expensed when incurred.

X) Financial assets
Financial assets are classified into the following categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

A) Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL or derivatives. Financial assets at FVTPL are stated at fair value, with any resulting gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

B) Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

C) Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.
Gains and losses arising from changes in fair value of available-for-sale financial assets are recognised in other comprehensive income. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the Consolidated Income Statement as 'Financial income' or 'Financial expense'. Dividends on available-for-sale equity instruments and interest on available-for-sale securities calculated using the effective interest method are recognised in the income statement as financial income.

In case of purchase or sale of financial assets the transactions are accounted at the settlement date.

D) Financial assets constituting loans receivables are carried at amortized cost and are presented separately in XIV) Loans receivable, XVIII) Cash and cash equivalents while Trade receivables are described in XV) Trade receivables. In case the risks and characteristics of embedded derivative instruments are not closely related to those of the host contract, these are treated as separate derivative instruments and valued accordingly.

For assets carried at amortised cost the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For assets classified as available for sale the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria described above.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. This impairment is accounted in the Consolidated Income Statement as Financial costs. Impairment losses recognised in the Consolidated Income Statement on equity instruments are not reversed through the Consolidated Income Statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the Consolidated Income Statement.

XI) Financial liabilities
Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL or derivatives. Financial liabilities at FVTPL are stated at fair value, with any gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. Financial liabilities constituting trade payables are described separately in XVI) Trade payables.

XII) Contingent-deferred purchase price
The contingent-deferred purchase price obligation of the Group as a result of an acquisition is measured initially and subsequently at fair value. The change in the fair value is analysed to different components and charged to the Consolidated Income Statement accordingly. The effect of the foreign exchange difference and the unwinding of interest is recognized in Finance costs (or Finance Income), while the change in the probability and the change in the estimated cash-flow to be paid is recognized in Other income and other expenses (net).

XIII) Other financial assets
Investments comprise long term bonds and unconsolidated investments in other companies. These investments contain 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivable investments' (non-derivative financial assets with fixed or determinable payments that are not quoted in an active market) as described in Note 15.

XIV) Loans receivable
Loans receivables include given loans measured at amortised cost. It also contains interest free loans given to employees with maximum of 8 years maturity. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

XV) Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

XVI) Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

XVII) Derivative financial instruments
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.
Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised as they arise in the Consolidated Income Statement. The derivative transactions of the Group do not qualify to be hedging transactions therefore no hedge accounting is applied.

XVIII) Cash and cash equivalents
In the Consolidated Cash Flow Statement Cash and cash equivalents comprise: cash in hand, bank deposits, and investments in money market instruments with a maturity date within three months accounted from the date of acquisition, net of bank overdrafts. In the Consolidated Balance Sheet bank overdrafts are shown within borrowings in current liabilities.

XIX) Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Consolidated Income Statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.
Regarding the capitalization of borrowing cost please see in XXIV) Borrowing costs.

XX) Inventories
Inventories are stated at the lower of cost and net realisable value. Goods purchased shall be measured by using the FIFO (first in first out) method. Goods produced shall be measured at actual (post calculated) production cost.
Net costs of own produced inventories include the direct cost of raw materials, the actual cost of direct production labour, the related maintenance and depreciation of production machinery and related direct overhead costs.

XXI) Provisions
Provisions are recognised when the Group has a current legal or constructive obligation arising as a result of past events, and when it is likely that an outflow of resources will be required to settle such an obligation, and if a reliable estimate for such amounts can be made.

Provision for Environmental Expenditures
The Group is exposed to environmental liabilities relating to its past operations and purchases of property, mainly in respect of soil and groundwater remediation costs. Provisions for these costs are made when the Group has constructive or legal obligation to perform these remedial works and when expenditure on such remedial work is probable and its costs can be estimated within a reasonable range. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The Group does not have legal or constructive obligation in relation to environmental expenditures as of 31 December 2016 and as of 31 December 2015.

Provision for Retirement Benefits
The Group operates a long term defined employee benefit program, which is described in XXVI) Employee Benefits.

XXII) Income taxes
The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Parent Company and its subsidiaries operate and generate taxable income.

Deferred tax is provided, using the balance sheet method, in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

In case the Group is eligible for investment tax credit, the initial recognition exception is applied therefore no deferred tax is recognised in connection with this investment (see Note 3.2).

XXIII) Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

XXIV) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

XXV) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at commencement of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Balance Sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term (Note 33). Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

XXVI) Employee benefits

Pension obligations

The Group operates a long term defined employee benefit program, which is presented as Provision in the Consolidated Balance Sheet. In line with IAS 19 for defined retirement benefit plans the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period.
The estimated amount of the benefit is accounted in equal amounts each period until maturity date (straight line method) and valued at present value by using actuarial discount rate.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions regarding defined benefit plans are charged to the Other Comprehensive Income while the remeasurements of other long term employee benefit program are charged to the Consolidated Income Statement in the period in which they arise.

Defined contribution plans

For defined contribution plans the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Termination benefit

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

XXVII) Share based payment

The Group is granting treasury shares to certain employees in its employee share bonus programs. Details of these bonus programs are set out in Note 25. These bonus programs are accounted for as equity-settled share-based payments.
Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis (adjusted with the change in estimate) over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the entity revises its estimates of the number of shares granted that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

XXVIII) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property, plant and equipment are included in Other non-current liabilities and accruals in the Consolidated Balance Sheet and credited to the income statement as Other income and other expenses (net) on a straight-line basis over the expected useful live of the related assets.

XXIX) Share Capital

Ordinary shares are classified as equity. Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued.
Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, and is included in equity attributable to the Company's equity holders.

XXX) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held as treasury shares. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

XXXI) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability and debited against equity (retained earnings) in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

XXXII) Comparative financial information

With effect from 1 January 2017 stand-alone IFRS reporting also became compulsory for Gedeon Richter Plc. The Company implemented changes to the IT system supporting the transition. As part of this development the Company reviewed its methodology to eliminate intra-group profit on sale of inventories. This review discovered that previously applied average margin for elimination was not precise on purchased inventories and that intra-group profit on own manufactured inventories was not fully eliminated. As a consequence, the inventory had been incorrectly overstated and cost of sales understated. The above described IT development enabled the Group to fully eliminate intra-group profit on sale of inventory.

Additionally, the preparation of stand-alone IFRS report of Gedeon Richter Plc. has revealed that the book value of previously identified difference between the IFRS and statutory value of property, plant and equipment and its depreciation have not been reviewed annually. As a consequence, the balance of property, plant and equipment was understated and previous years' depreciation was overstated. The review resulted in correction of the value of property, plant and equipment and retained earnings.

In accordance with IAS 8 standard the corresponding figures for previous periods have been restated accordingly as detailed in Note 39.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2 management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Consolidated Financial Statements are the following:

3.1 Key sources of estimation uncertainty

Impairment testing of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in point VI). The impairment assessment performed by the Group contains significant estimates that depend on future events. The assumptions used and the sensitivity of the estimation is presented in details in Note 18.

Depreciation and amortization

Property, plant and equipment and intangible assets are recorded at cost and are depreciated or amortised on a straight-line basis over their estimated useful lives. The estimation of the useful lives of assets is a matter of judgement based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use.
However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical, market and legal conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

The appropriateness of the estimated useful lives is reviewed annually. If the estimated useful lives would decrease by 10% in comparison to management's estimates, depreciation for the year ended 31 December 2016 would be greater by HUF 3,654 million (2015: increase by HUF 3,472 million).

The Group recorded depreciation and amortisation expense in the amount of HUF 32,895 million and HUF 31,248 million for the years ended 31 December 2016 and 2015, respectively.

Tax loss carried forward in Switzerland

PregLem

The Swiss subsidiary of the Group, PregLem has CHF 92 million (HUF 26,653 million) tax loss carried forward as of 31 Decemher 2016 and CHF 103 million (HUF 29,870 million) as of 31 December 2015. PregLem also had tax holiday on cantonal (Geneva) level that expired in 2016. The Company has prepared a detailed schedule on the utilization of the tax loss carried forward and provided for deferred tax on cantonal level only on the deductible temporary differences that are expected to be recovered after the expiry of the above mentioned tax holiday. The net deferred tax liability related to PregLem as of 31 December 2016 is HUF 1,431 million while as of 31 December 2015 HUF 7,894 million (see Note 16).

Finox

The newly acquired Swiss group, Finox has EUR 43 million (HUF 13,490 million) tax loss carried forward as of 31 December 2016. The company has prepared a detailed schedule on the utilization of the tax loss carried forward and provided for deferred tax on cantonal level only on the deductible temporary differences that are expected to be recovered. The deferred tax asset has been determined with the relevant tax rate for Finox (10.97%) which reduces the amount of deferred tax liability recognised on the acquisition. The tax rate applied assumes that the company will be able to maintain its favourable tax status. The net deferred tax liability related to Finox AG, a member of the newly acquired Swiss group as of 31 December 2016 is HUF 3,608 million.

Uncertain tax position in Romania

From 1 October 2009 the Government approved a debated claw-back regime (aimed at financing the overspending of the national pharmaceutical budget) to be paid to the CNAS (Casa Nationala de Asigurari Sanatate) by the domestic manufacturers and wholesalers in the range of 5-12 % from sales of reimbursed drugs. The related uncertain tax position is disclosed in more details in Note 37.

From 1 October 2011, a new version of Romania's pharmaceutical claw-back mechanism came into force levying direct liabilities for the domestic and foreign manufacturers, which does not constitute to be an uncertain tax position; the related expenses have been disclosed in Note 5.

In the acquisitions presented below, in accordance with its Accounting Policy, the Group reports the contingent- deferred purchase price liabilities to former owners at fair value (determined by probability weighted discounted technique) which are reviewed in each period. Subject to the occurrence of future events payments may be higher than the liabilities on the books.

GRMed contingent-deferred purchase price payments

In 2013 Richter Gedeon Plc. announced that it signed a series of agreements with the owners of its marketing partner, Rxmidas Pharmaceuticals Co. Ltd. ('Rxmidas'), targeting a reshaped and stronger direct presence on the Chinese pharmaceutical market. Richter acquired the company and the agreement terms included an upfront payment together with milestone payments in the forthcoming years.

Contingent-deferred purchased price is accounted for at discounted fair value. The gross amount of the expected payment (undiscounted) is approximately CNY 179 million (HUF 7,565 million) as of 31 December 2016 and CNY 275 million (HUF 12,139 million) as of 31 December 2015. Since the contingent-deferred purchase price is determined as a certain proportion of future profit of predetermined products therefore maximum exposure in prior periods could not be quantified.

Since the last payment was already settled in 2017 therefore there is no uncertainty as of 31 December 2016.

GR Mexico contingent-deferred purchase price payments

In December 2013 as part of its expansion in Central and South America the Company has signed an agreement with the owner of DNA Pharmaceuticals, S.A. de C.V. („DNA"), to establish its direct presence on the pharmaceutical market in Mexico. Under the terms of the agreement Richter acquired 100% stake and 70% voting rights and assumed an obligation for payment of the remained and unpaid 30% portion in three years out of which 10% had been settled in 2015. The Group did not recognise non-controlling interest on the acquisition as explained in Note 36.

Subsequent to the signature of the agreement the company is renamed into Gedeon Richter Mexico, S.A.P.I. de C.V (hereinafter "GR Mexico"). The targeted activities are sales, promotion and registration of female healthcare products. This partnership agreement between GR Mexico and Richter creates a perfect synergy for launching ESMYA® on the Mexican market.

Contingent-deferred purchased price has been presented as "Other current liability" and the gross amount of the expected payment (undiscounted) is USD 3.0 million (HUF 881 million) as of 31 December 2016, while USD 3.0 million (HUF 860 million) as of 31 December 2015

Mediplus Group contingent-deferred purchase price payments

In May 2014 Gedeon Richter Plc. has signed an agreement with Andelam B.V. a Netherland based private limited liability company ("Andelam") to buy 100% stake and 51% voting rights in Mediplus N.V. a marketing company based in Curaçao ("Mediplus"). According to the agreement Richter is going to fulfil the liability originated from the contingent and deferred purchase price in connection with the unpaid 49% in the following years. Further payments are connected to certain performance related targets to be reached by previous owner latest in Q1 2017. In the view of Richter's management the preconditions for the milestone payment will not be met, therefore the fair value of the liability in respect of this transaction is zero. Based on the agreement concluded with the original shareholder in 2015, Richter's voting right increased to 100%.

The maximum amount of exposure relating to the acquisition of the Mediplus Group was USD 5,880 thousand (HUF 1,727 million) as of 31 December 2016 and USD 5,880 thousand (HUF 1,685 million) as 31 December 2015.

Mediplus is a well-established marketing company, which covers through its subsidiaries a number of countries in the Latin American region, namely: Ecuador, Peru, Chile and Bolivia. It also sells pharmaceutical products to Central American and Caribbean countries. The main profile is to market those female healthcare products of Richter, which are already on the market in the above mentioned countries.

Uncertainty in connection to the contingent-deferred purchase prices above is presented in Note 11.

3.2 Critical judgements in applying entities accounting policies

Investment tax credit

The Parent Company has been eligible for a tax credit as a result of the investment performed by the Company. The criteria that are needed to be fulfilled in order to qualify for this tax credit are described in Note 8. The Group assesses that the amount of investment is the only substantial criteria in relation to the tax credit because the operation of the assets purchased requires clearly more human resource than prescribed by the relevant regulation. The Group assessed this relief to be an investment tax credit. Based on the accounting policy of the Group, investment tax credit is treated as increase of the related asset's tax base. Since the asset was not acquired in a business combination and neither accounting profit nor taxable profit is affected on the related asset's initial recognition, the deductible temporary difference that arises will be exempt due to the initial recognition exception in paragraph 24 of IAS 12 and therefore no deferred tax asset is recognised.

The remaining tax relief open for subsequent years amounts to HUF 1,323 million at current value (in 2015 HUF 3,390 million).

4. Segment Information

Management has determined the operating segments based on the reports reviewed by the Board of Directors (Chief Operating Decision Makers) that are used to make strategic decisions. The three main segments for management purposes:

- Pharmaceuticals: includes the companies that are involved in the Group's core business, i.e. research, development and production of pharmaceutical products
- Wholesale and retail: distribution companies and pharmacies that are part of the sales network in various regional markets and, as such, convey our products to consumers
- Other: presents all the other consolidated companies that provide marketing and sales support services mainly to the members of the Group.

In the Pharmaceuticals segment of the Group a dominant part of the revenue from sale of goods originates from sale of finished form pharmaceuticals and active pharmaceutical ingredients. From therapeutic point of view the female healthcare, cardiovascular and central nervous system related drugs are the most significant products.

I) Business segments

	Pharmaceuticals		**Wholesale and retail**		**Other**		**Eliminations**		**Total**	
	HUFm		HUFm		HUFm		HUFm		HUFm	
	2016	**2015** Restated*	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015** Restated*
3rd party revenues	314,391	300,551	74,459	63,688	840	981	-	-	389,690	365,220
Inter segment revenues	9,448	8,359	5	3	3,763	3,621	(13,216)	(11,983)	-	-
Revenues	**323,839**	**308,910**	**74,464**	**63,691**	**4,603**	**4,602**	**(13,216)**	**(11,983)**	**389,690**	**365,220**
Profit from operations	55,204	66,148	1,158	893	151	(98)	(1,897)	(261)	54,616	66,682
Total assets	882,469	828,875	45,582	42,676	7,134	6,330	(121,308)	(130,887)	813,877	746,994
Total liabilities	114,950	112,752	37,618	40,689	1,257	1,344	(21,821)	(26,180)	132,004	128,605
Capital expenditure***	35,700	32,426	539	621	214	255	-	-	36,453	33,302
Depreciation and amortization**	32,066	30,427	596	583	233	238	-	-	32,895	31,248
Share of profit of associates and joint ventures	(835)	228	2,566	1,308	41	4	26	(38)	1,798	1,502
Investments in associates and joint ventures	-	997	7,070	4,819	1,523	1,403	(52)	(79)	8,541	7,140

* See Note 39 for details regarding the restatement.
** See Note 12.
*** See in the Consolidated Cash flow Statement.

II) Entity wide disclosures

The external customers of the Group are domiciled in the following regions:

1. Hungary
2. CIS (Commonwealth of Independent States)
3. EU
4. USA
5. China
6. Latin America
7. Other countries

2016	Hungary	CIS	EU	USA	China	Latin America	Other countries	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Revenues	35,776	121,736	166,167	18,813	21,616	9,187	16,395	389,690
Total assets	611,689	56,264	91,678	2,595	4,501	7,131	40,019	813,877
Capital expenditure	32,459	1,281	2,336	-	0	183	194	36,453

2015	Hungary	CIS	EU	USA	China	Latin America	Other countries	Total
	HUFm Restated*	HUFm Restated*	HUFm Restated*	HUFm	HUFm	HUFm	HUFm	HUFm Restated*
Revenues	34,976	122,058	149,596	18,103	16,849	9,057	14,581	365,220
Total assets*	582,503	39,052	85,704	3,130	1,347	6,316	28,942	746,994
Capital expenditure	28,505	1,400	2,872	-	-	181	344	33,302

* See Note 39 for details regarding the restatement.

Revenues from external customers are derived from the sales of goods, revenue from services and royalty incomes as described below.

Analyses of revenue by category	2016 HUFm	2015 HUFm
Sales of goods	373,466	356,118
Revenue from services	10,563	8,494
Royalty income	5,661	608
Total revenues	**389,690**	**365,220**

Revenues of approximately HUF 22,809 million (2015: HUF 20,003 million) are derived from a single external customer. These revenues are attributable to the Pharmaceuticals segment and located in the CIS region.
There is no customer exceeding 10% of net sales, therefore the Group assesses the risk of customer concentration as not significant.

5. Profit from operations – expenses by nature

	2016 HUFm	2015 HUFm Restated*
Revenues	389,690	365,220
From this: royalty and other similar income	*5,661*	*608*
Changes in inventories of finished goods and work in progress, cost of goods sold	(90,345)	(80,067)
Material type expenses	(101,941)	(91,150)
Personnel expenses	(101,877)	(94,675)
Depreciation and amortisation (Note 12)	(32,895)	(31,248)
Other income and other expenses (net)	(8,016)	(1,398)
Profit from operations	**54,616**	**66,682**

* See Note 39 for details regarding the restatement.

Most significant items presented within Other income and other expenses (net):

Claw-back expenses are partial repayment of the received Sales revenue of the reimbursed products to the State where the product is to be distributed (further "claw-back"). In accordance with the announced claw-back regime local authorities established the amount of extraordinary tax to be paid based on the comparison of the subsidies allocated for reimbursed drugs and manufacturers' sales thereof. Other income and expenses include expenditures in respect of the claw-back regimes effective in Romania, Germany, France, Spain, Portugal, Belgium, Latvia, Italy and Bulgaria amounting to HUF 5,432 million in 2016 (in 2015 HUF 4,747 million). The 20 % tax obligation payable in respect of turnover related to reimbursed sales in Hungary amounted to HUF 379 million in 2016 and HUF 192 million in 2015.

Other income and expenses net includes impairment of Rights (see Note 12) and the effect of probabilities and change of gross payment on the contingent-deferred purchase price (see Note 11).
The product withdrawal of Lisvy® resulted in a write-off amounting to HUF 2,405 million accounted for in respect of intangible assets. An additional HUF 849 million impairment loss was accounted in respect of inventories, an amount which Richter expects to receive as compensation as notified by Bayer. Further compensation claims that are under negotiation between the Parties have not yet been recognized as receivable and as other income.

An impairment loss amounting to HUF 1,720 million was recorded in respect of the Goodwill related to Mediplus in 2016, please see in Note 18.

A one-off income amounting to HUF 3,453 million was recorded as other income in 2016 in connection with the 100% acquisition of the joint venture Gedeon Richter Rxmidas JV Co. Ltd. engaged in the trading of OTC products on the Chinese market. Having applied the accounting standards for business combinations as established by IFRS 3 the 50% stake held prior to the transaction was reassessed at fair value at the time of the acquisition (22 January 2016) recognised as other income thereof in the Consolidated Income Statement.

Other income includes a one-off income paid by Recordati as an upfront payment, amounting to HUF 3,112 million as stipulated in the concluded agreement relating to future European sales and marketing of cariprazine in 2016. The base period figure, Other income, included milestone incomes (from Allergan in conjunction with securing marketing authorization for VRAYLAR™ in the United States, and from Stada in connection with the development of biosimilar products), as well as the exchange rate compensation related to Chinese sales accounted for retrospectively.

6. Employee information

	2016	2015
Average number of people employed during the year	11,820	11,465

The newly acquired companies resulted in an increase of 94 in the average number of employees during 2016. There were no acquisitions in 2015.

7. Net financial result

The Group is translating its foreign currency monetary assets and liabilities to the year-end exchange rate on individual item level, which is presented in the Consolidated Income Statement separately as Finance income or Finance costs. Since the management of the Company is analysing these translation differences on net basis, balances are presented on net basis as follows:

	2016 HUFm	2015 HUFm
Unrealised financial items	**4,679**	**(6,568)**
Exchange gain/(loss) on trade receivables and trade payables	3,658	(5,984)
(Loss)/gain on foreign currency loans receivable	(148)	1,360
Year-end foreign exchange translation difference of borrowings	245	243
Exchange gain/(loss) on other currency related items	1,939	(1,625)
Unwinding of discounted value related to contingent-deferred purchase price liabilities (Note 11)	(948)	(573)
Result of unrealised forward exchange contracts	(4)	11
Impairment loss on investments	(63)	-
Realised financial items	**7,133**	**(1,739)**
Gain on forward exchange contracts*	-	621
Exchange gain/(loss) realised on trade receivables and trade payables	2,670	(2,867)
Foreign exchange difference on conversion of cash	218	(1,062)
Dividend income	2,792	1
Interest income	2,566	2,641
Interest expense	(827)	(1,160)
Other financial items	(286)	87
Total	**11,812**	**(8,307)**

* Contains only the result of the net settled (settling through mark to market procedures) forward exchange contracts. Gain and loss of delivery fx deal is presented as "Foreign exchange difference on conversion of cash".

Unrealised financial gain was heavily affected by the 4.78 RUB/HUF, 293.69 USD/HUF exchange rates in effect on 31 December 2016 (3.88 RUB/HUF on 31 December 2015, 286.63 USD/HUF respectively) which impacted the revaluation of currency related Balance Sheet items. These translation differences together resulted in a gain of HUF 5.7 billion in the net financial income for 2016. For the sensitivity analysis relating to foreign currency exposure see Note 10.

At the end of the financial period Richter had an option arising from a convertible loan provided in 2015 (change of the fair value is HUF 69 million loss), and an "exchangeable bond" option connected to MNV bonds (change of the fair value is HUF 1,016 million gain), more detailed in Note 15.

Exchange rate movements are closely monitored by the Company and the conclusion of further forward contracts will be subject to Management's review and approval.

The Company does not apply hedge accounting according to IAS 39. The forward transactions are carried at fair value, which is determined based on forward rates provided by the commercial banks.

Contingent-deferred purchase price payment scheme was applied at the 2013 acquisition of GRMed Co. Ltd. and the 2014 acquisition of GR Mexico (see point 3.1). The contingent-deferred purchases are carried at fair value and thus increase the Group's Other short-term liabilities items. Unwinding of discounted value related to contingent-deferred purchase price liabilities are disclosed more detailed in Note 11.

The interest expense of the borrowings that are presented in Note 29 is HUF 827 million (in 2015 HUF 1,160 million).

8. Income tax expense

The Group discloses the Hungarian local business tax and innovation contribution as income taxes as we have established that these taxes have the characteristics of income taxes in accordance with IAS 12 rather than operating expenses.

	2016 HUFm	2015 HUFm Restated*
Domestic corporate income tax	(561)	(851)
Foreign corporate income tax	(1,453)	(1,191)
Local business tax	(3,728)	(3,351)
Innovation contribution	(480)	(499)
Current tax	**(6,222)**	**(5,892)**
Deferred tax (Note 16)	5,019	(122)
Income tax	**(1,203)**	**(6,014)**

* See Note 39 for details regarding the restatement.

The average effective tax rate calculated on the basis of the current tax is 9.1% and 1.8% taking into account the effect of deferred tax as well, in 2015 these rates were 9.8% and 10.0% respectively.

Current corporate tax rates at the Parent Company and at the three most significant subsidiaries are as follows:

Parent Company*	19%
Romania	16%
Russia	20%
Poland	19%

* For the first HUF 500 million 10% tax rate is applicable, for the tax base exceeding HUF 500 million 19% tax rate is applicable. From January 1st, 2017 9% statutory tax rate is applicable.

At subsidiary level there was no change in the tax rates above in compare to prior year.

The tax authorities may at any time inspect the books and records within the time frame described in the related statutory regulation and may impose additional tax assessments with penalties and penalty interest. Management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Relating to uncertain tax position please see Note 37.

Tax rate reconciliation

	2016 HUFm	2015 HUFm Restated*
Profit before income tax	**68,226**	**59,877**
Tax calculated at domestic tax rates applicable to profits in the respective countries**	17,127	14,169
Tax effects of:		
Benefit of utilising investment tax credit at Parent	(2,221)	(2,978)
Associates results reported net of tax	(342)	(279)
Income not subject to tax	(1,293)	(349)
Expense not deductible for tax purposes	546	1,049
Expense eligible to double deduction***	(5,356)	(5,204)
The effect of changes in tax loss for which no deferred income tax has been recognised****	(222)	(205)
Correction of tax return	(397)	-
Effect of change in tax rate	(5,731)	-
Impact of unrecognized tax on investment in subsidiaries*****	(908)	(189)
Tax charge	**1,203**	**6,014**

* See Note 39 for details regarding the restatement.
** The tax has been calculated with domestic tax rates including the effect of every income tax (including e.g. local business tax).
*** These expenditures can be deducted twice from the current years result to get the taxable profit (qualifying R&D expenses).
**** Unused tax loss of the current year on which no deferred tax asset has been recognised adjusted by the effect of the tax loss utilised in current period on which no deferred tax asset was recognised.
***** Deferred tax liability is not recognized in accordance with IAS 12.39 on the related temporary difference.

Investment tax credit

In 2007 the Parent Company notified the Ministry of Finance of its intent to take advantage of the tax relief in connection with the capital expenditure project to construct a new plant in Debrecen to develop and manufacture biotechnology products.
The project was concluded in 2011 and all the equipment that formed part of the project was commissioned. The Company has taken advantage of the investment tax relief for the first time in the 2012 fiscal year.

The criteria for eligibility for the tax relief according to Section 22/B (1) b) of the Act on Corporate Tax and Dividend Tax are:

- the value of investment is to be at least HUF 1 billion at current value,
- installed assets shall be kept for 5 years in the beneficiary region and
- during this period, the number of staff employed shall exceed that of the tax year preceding the investment project by at least 75 people.

The Company can take advantage of the tax relief in the tax year following the year when the project was completed and in the following nine years (at the latest during the fourteenth tax year following the tax year in which the notification or the application was submitted). Therefore Richter can take advantage of the tax relief in connection with the Debrecen capex project up to 2021 at the latest.
The Company used the tax credit described above in the 2012, 2013, 2015 and 2016 business years. The remaining tax relief open for subsequent years amounts to HUF 1,323 million at current value (in 2015 HUF 3,390 million).

Accounting treatment of the tax credit

The Group assesses that the amount of investment is the only substantial criteria in relation to the tax credit because clearly more human resource is required to operate the assets purchased. The increase of the average number of employees exceeds the criteria defined in the tax credit by 120 employees (calculation made according to the 2012 year change in the Act on Corporate Tax and Dividend Tax). Therefore the Group assessed this tax credit to be an investment tax credit and applied the initial recognition exception stated in IAS 12.24 and did not recognise any deferred tax in connection with these assets.

9. Consolidated earnings per share

Basic earnings per share is calculated by reference to the net profit attributable to shareholders and the weighted average number of ordinary shares outstanding during the year. These exclude the average number of ordinary shares purchased by the Company and held as Treasury shares.
For diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to assume conversion of all dilutive potential ordinary shares. As of 31 December 2015 and 2016 there are no potential dilutive instruments issued by the Group.

EPS (basic and diluted)

	2016	2015 Restated*
Net consolidated profit attributable to owners of the parent (HUFm)	66,200	53,863
Weighted average number of ordinary shares outstanding (thousands)	185,848	185,286
Earnings per share (HUF)	**356**	**291**

* See Note 39 for details regarding the restatement.

10. Financial instruments

Financial instruments in the Balance Sheet include loans receivable, investments, trade receivables, other current assets, cash and cash equivalents, short-term and long-term borrowings, trade and other payables.

	Notes	Carrying value		Fair value	
		31 December 2016 HUFm	31 December 2015 HUFm	31 December 2016 HUFm	31 December 2015 HUFm
Financial assets[1]					
Available for sale investments carried at fair value					
Investments in securities[2]	22	751	2,446	751	2,446
Held to maturity investments carried at amortised cost					
Investments in securities[2]	22	-	1,524	-	1,524
Loans and receivables carried at amortised cost					
Loans receivable	21	1,776	2,893	1,776	2,893
Trade receivables	20	116,223	92,539	116,223	92,539
Other current assets	21	3,524	2,336	3,524	2,336
Cash and cash equivalents	23	96,053	132,374	96,053	132,374
Financial assets carried at fair value through profit or loss					
Foreign exchange forward contracts[4]	21	-	4	-	4
Current		**218,327**	**234,116**	**218,327**	**234,116**
Available for sale investments carried at fair value					
Investments[3]	15	13,255	8,169	13,255	8,169
Held to maturity investments carried at amortised cost					
Investments	15	1,862	1,815	1,862	1,815
Loans and receivables carried at amortised cost					
Loans and receivable investments	15	15,780	16,282	15,780	16,282
Loans receivable	17	4,799	3,683	4,799	3,683
Financial assets carried at fair value through profit or loss					
Convertible loan option[7]	15	79	148	79	148
"Exchangeable bonds" option[8]	15	1,888	-	1,888	-
Non-current		**37,663**	**30,097**	**37,663**	**30,097**

[1] All financial assets are free from liens and charges.
[2] The fair valuation of securities was based on bank data supply.
Level 1: in 2016 none (in 2015 HUF 1,524 million)
Level 2: in 2016 HUF 751 million (in 2015 HUF 2,446 million)
[3] Level 1: in 2016 HUF 13,255 million (in 2015 HUF 8,169 million)
[4] Level 2: the entire balance in 2016 none (in 2015 HUF 4 million)
[5] Level 3 (constituting contingent-deferred purchase price): in 2016 HUF 8,446 million (in 2015 HUF 6,370 million)
[6] Level 3 (constituting contingent-deferred purchase price): in 2016 none (in 2015 HUF 5,694 million)
[7] Level 3: in 2016 HUF 79 million (in 2015 HUF 148 million)
[8] Level 3: in 2016 HUF 1,888 million

	Notes	Carrying value 31 December 2016 HUFm	Carrying value 31 December 2015 HUFm	Fair value 31 December 2016 HUFm	Fair value 31 December 2015 HUFm
Financial liabilities					
Liabilities carried at amortised cost					
Borrowings	29	7,776	6,523	7,776	6,523
Trade payables	26	45,926	38,209	45,926	38,209
Other payables and accrual	27	17,253	11,582	17,253	11,582
Financial liabilities carried at fair value through profit or loss					
Other payables[5]	11,27	8,446	6,370	8,446	6,370
Current		**79,401**	**62,684**	**79,401**	**62,684**
Liabilities carried at amortised cost					
Borrowings	29	28,874	37,188	28,874	37,188
Other non-current liabilities	30	3,438	974	3,438	974
Financial liabilities carried at fair value through profit or loss					
Other non-current liabilities[6]	11,30 27.1	-	5,694	-	5,694
Non-current		**32,312**	**43,856**	**32,312**	**43,856**

[1] All financial assets are free from liens and charges.
[2] The fair valuation of securities was based on bank data supply.
Level 1: in 2016 none (in 2015 HUF 1,524 million)
Level 2: in 2016 HUF 751 million (in 2015 HUF 2,446 million)
[3] Level 1: in 2016 HUF 13,255 million (in 2015 HUF 8,169 million)
[4] Level 2: the entire balance in 2016 none (in 2015 HUF 4 million)
[5] Level 3 (constituting contingent-deferred purchase price): in 2016 HUF 8,446 million (in 2015 HUF 6,370 million)
[6] Level 3 (constituting contingent-deferred purchase price): in 2016 none (in 2015 HUF 5,694 million)
[7] Level 3: in 2016 HUF 79 million (in 2015 HUF 148 million)
[8] Level 3: in 2016 HUF 1,888 million

Above mentioned different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within level 1 that are observable at the market for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Financial risk management

During the year Gedeon Richter Plc. has identified its relevant financial risks that are continuously monitored and evaluated by the management of the Company. The Group focuses on capital structure, foreign currency related-, credit and collection related- and liquidity risk.

Interest rate risk
As stated in Note 10 Capital management the amount of total borrowings of the Group is not relevant since that the interest rate risk is negligible.

Security price risk
Investment in securities mainly held in treasury bills and government securities issued or granted by the Hungarian State. Therefore security price risk is not material (see credit risk point in this note). The most significant investment of the Group is represented by the interest held in Protek Group all security price risk is related to that investment which is stated in Note 15.

I.) Capital management

The capital structure of the Group consists of net debt (borrowings as detailed in Notes 29 offset by cash and bank balances in Note 23) and equity of the Group (comprising share capital, retained earnings, other reserves and non-controlling interests).

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group is also monitoring the individual entities to meet their statutory capital requirements. The Parent Company has been pursuing constant dividend policy, provided dividend from the profit to the owners every year. In accordance with the dividend policy followed by the Company, the Board of Directors recommends the payment of approximately 25 percent of Gedeon Richter Plc.'s net consolidated profit calculated according to IFRS. Dividends are approved by the shareholders of Gedeon Richter Plc.'s at the Annual General Meeting.

The capital risk of the Group was still limited in 2016 and 2015, since the net debt calculated as below shows surplus in the balance sheet.

The gearing at end of the reporting period was as follows:

	31 December 2016 HUFm	**31 December 2015** HUFm Restated*
Borrowings (Note 29)	36,650	43,711
Less: cash and cash equivalents (Note 23)	(96,053)	(132,374)
Net debt	**(59,403)**	**(88,663)**
Total equity	681,873	618,389
Total capital	**622,470**	**529,726**
EBITDA**	90,303	97,931
Net debt to EBITDA ratio	**(0.66)**	**(0.91)**
Net debt to equity ratio	**(0.09)**	**(0.14)**

* See Note 39 for details regarding the restatement.
** EBITDA has been determined in line with the credit agreement as operating profit increased by dividend income and depreciation and amortization expense.

	2016 HUFm	**2015** HUFm Restated*
Profit from operations	54,616	66,682
Depreciation	32,895	31,248
Dividend income	2,792	1
EBITDA	**90,303**	**97,931**

* See Note 39 for details regarding the restatement.

The Group is in compliance with the ratios stated as covenants in the EIB credit line agreement.

II.) Foreign currency risk

The Group performs significant transactions in currencies other than the functional and the presentation currency, therefore faces the risk of currency rate fluctuation. The Group continuously calculates open FX positions and monitors key foreign exchange rates. In order to mitigate the foreign exchange risk the Group is aiming to achieve natural hedging through loans taken in foreign currency. There is no formal threshold stated in the policies of the Group on the exposure level that would automatically require conclusion of derivative instruments to mitigate the foreign currency risk.

Foreign exchange sensitivity of actual costs

The Group does business in a number of regions, and countries with different currencies. The most typical foreign currencies are the EUR, USD, PLN, RON, RUB, CHF and the KZT. The calculation of exposure to foreign currencies is based on these seven currencies.

The foreign currency risk management calculation is based on the balances exposed to exchanges of foreign currencies of the Parent Company and the eight principal subsidiaries (Gedeon Richter Polska Sp. z o.o., Gedeon Richter Romania S.A., AO Gedeon Richter - RUS, PregLem S.A., Richter-Helm BioLogics GmbH & Co. KG, Pharmafarm S.A., Gedeon Richter Farmacia S.A., TOO Gedeon Richter KZ). The items of the other consolidated companies have insignificant foreign currency exposure as they are performing mainly wholesale and retail activity. The effect of the risk arising from currency fluctuation is measured by different change in the exchange rates. Certain foreign currencies recently showed higher volatility (RUB, KZT) therefore according to the decision of the Management these currencies have been diverted in a reasonable level when determining the exchange rate combination.

The table below presents the effect of the change in the average foreign currency rate on the operating profit and on the profit for the year:

2016		**Exchange rates**							**Effect on operating profit**	**Effect on profit for the year**	
*	EUR/HUF	USD/HUF	EUR/USD	PLN/HUF	RON/HUF	RUB/HUF	CHF/HUF	KZT/HUF		HUFm	
103.21%	**321.46**										
		290.27	**1.11**	**73.65**	**71.54**	**5.24**	**294.82**	**1.04**	**19,127**	**21,923**	**largest growth**
		281.24	1.14	71.36	69.31	4.19	285.65	0.83	1,336	1,346	
		272.21	1.18	69.07	67.08	3.14	276.48	0.62	(16,454)	(19,231)	
100.00%	311.46										
		290.27	1.07	73.65	71.54	5.24	294.82	1.04	16,908	19,639	
		281.24	1.11	71.36	69.31	4.19	285.65	0.83	0	0	
		272.21	1.14	69.07	67.08	3.14	276.48	0.62	(17,790)	(20,577)	
96.79%	**301.46**										
		290.27	1.04	73.65	71.54	5.24	294.82	1.04	16,454	19,231	
		281.24	1.07	71.36	69.31	4.19	285.65	0.83	(1,336)	(1,346)	
		272.21	**1.11**	**69.07**	**67.08**	**3.14**	**276.48**	**0.62**	**(19,127)**	**(21,923)**	**greatest decrease**

* Change of EUR/HUF average exchange rates.

2015		Exchange rates							Effect on operating profit	Effect on profit for the year	
*	EUR/HUF	USD/HUF	EUR/USD	PLN/HUF	RON/HUF	RUB/HUF	CHF/HUF	KZT/HUF		HUFm	
103.23%	**319.67**										
		288.17	**1.11**	**76.50**	**72.11**	**5.64**	**298.68**	**2.10**	**15,233**	**12,783**	**largest growth**
		279.16	1.15	74.11	69.85	4.70	289.34	1.43	888	839	
		270.15	1.18	71.72	67.59	3.67	280.00	0.74	(14,513)	(12,020)	
100.00%	309.67										
		288.17	1.07	76.50	72.11	5.64	298.68	2.10	13,133	10,681	
		279.16	1.11	74.11	69.85	4.70	289.34	1.43	0	0	
		270.15	1.15	71.72	67.59	3.67	280.00	0.74	(15,400)	(12,859)	
96.77%	**299.67**										
		288.17	1.04	76.50	72.11	5.64	298.68	2.10	13,458	11,105	
		279.16	1.07	74.11	69.85	4.70	289.34	1.43	(888)	(839)	
		270.15	**1.11**	**71.72**	**67.59**	**3.67**	**280.00**	**0.74**	**(16,288)**	**(13,698)**	**greatest decrease**

* Change of EUR/HUF average exchange rates.

Based on the yearly average currency rate sensitivity analysis of 2016 the combination of weak Hungarian Forint - 321.46 EUR/HUF against other currencies - would have caused the largest growth in the amount of HUF 19,127 million on the Group's consolidated operating profit and HUF 21,923 million on the Group's consolidated profit for the year.
The greatest decrease HUF 19,127 million on operating and HUF 21,923 million on profit for the year would have been caused by the combination of exchange rates of 301.46 EUR/HUF against other currencies.

Based on the yearly average currency rate sensitivity analysis of 2015 the combination of weak Hungarian Forint - 319.67 EUR/HUF against other currencies - would have caused the largest growth in the amount of HUF 15,233 million on the Group's consolidated operating profit and HUF 12,783 million on the Group's consolidated profit for the year. The greatest decrease HUF 16,288 million on operating and HUF 13,698 million on profit for the year would have been caused by the combination of exchange rates of 299.67 EUR/HUF against other currencies.

Currency sensitivity of balance sheet items

Currency sensitivity analysis of balance sheet items is applied to third party trade receivables and trade payables, bank accounts in foreign currency, loans receivable, borrowings, and contingent-deferred purchase price liabilities considering that items of related parties are eliminated during consolidation. The calculation is based on the items of the Parent Company and the eight principal subsidiaries (Gedeon Richter Polska Sp. z o.o., Gedeon Richter Romania S.A., AO Gedeon Richter - RUS, PregLem S.A., Richter-Helm BioLogics GmbH & Co. KG, Pharmafarm S.A., Gedeon Richter Farmacia S.A., TOO Gedeon Richter KZ). The effect of the risk arising from currency fluctuation is measured by different scenarios regarding the exchange rates.
The calculation is based on the exchange rates combination presented below. Certain foreign currencies recently showed higher volatility (RUB, KZT) therefore according to the decision of the Management these currencies have been diverted in reasonable level when determining the exchange rate combination.

The table below presents the effect of the change in the year end currency rate on the net financial position:

2016		**Exchange rates**							**Effect on net financial position**	
*	EUR/HUF	USD/HUF	EUR/USD	PLN/HUF	RON/HUF	RUB/HUF	CHF/HUF	KZT/HUF	HUFm	
103.21%	**321.00**									
		303.20	**1.06**	**72.60**	**70.70**	**6.00**	**298.80**	**1.10**	**11,667**	**best case scenario**
		293.69	1.09	70.29	68.53	4.78	289.41	0.88	268	
		284.20	1.13	68.00	66.30	3.60	280.10	0.70	(10,749)	
100.00%	311.02									
		303.20	1.03	72.60	70.70	6.00	298.80	1.10	11,399	
		293.69	1.06	70.29	68.53	4.78	289.41	0.88	0	
		284.20	1.09	68.00	66.30	3.60	280.10	0.70	(11,017)	
96.79%	**301.00**									
		303.20	0.99	72.60	70.70	6.00	298.80	1.10	11,130	
		293.69	1.02	70.29	68.53	4.78	289.41	0.88	(269)	
		284.20	**1.06**	**68.00**	**66.30**	**3.60**	**280.10**	**0.70**	**(11,286)**	**worst case scenario**

* Change of EUR/HUF balance sheet date exchange rates.

2015		Exchange rates							Effect on net financial position	
*	EUR/HUF	USD/HUF	EUR/USD	PLN/HUF	RON/HUF	RUB/HUF	CHF/HUF	KZT/HUF	HUFm	
103.23%	**323.20**									
		295.90	**1.09**	**75.80**	**71.50**	**4.70**	**298.70**	**1.20**	**8,382**	**best case scenario**
		286.63	1.13	73.46	69.22	3.88	289.38	0.84	732	
		277.40	1.17	71.10	67.00	3.00	280.00	0.40	(7,427)	
100.00%	313.12									
		295.90	1.06	75.80	71.50	4.70	298.70	1.20	7,650	
		286.63	1.09	73.46	69.22	3.88	289.38	0.84	0	
		277.40	1.13	71.10	67.00	3.00	280.00	0.40	(8,159)	
96.77%	**303.00**									
		295.90	1.02	75.80	71.50	4.70	298.70	1.20	6,915	
		286.63	1.06	73.46	69.22	3.88	289.38	0.84	(735)	
		277.40	**1.09**	**71.10**	**67.00**	**3.00**	**280.00**	**0.40**	**(8,895)**	**worst case scenario**

* Change of EUR/HUF balance sheet date exchange rates.

The worst case scenario is when EUR, USD, PLN, RON, RUB, CHF and KZT weaken against HUF. In this case the consolidated financial result would decrease by HUF 11,286 million. The best case scenario is when EUR, USD, PLN, RON, RUB, CHF and KZT would strengthen against HUF. In this case the consolidated financial result would increase by HUF 11,667 million.

In 2015 the worst case scenario was when EUR, USD, PLN, RON, RUB, CHF and KZT weaken against HUF. In this case the consolidated financial result would have decreased by HUF 8,895 million.
The best case scenario was when EUR, USD, PLN, RON, RUB, CHF and KZT would strengthen against HUF. In this case the consolidated financial result would have increased by HUF 8,382 million.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in million foreign currency units, were as follows:

2016

	Currencies (all amounts in millions)						
	EUR	USD	CHF	RUB	RON	PLN	KZT
Trade receivables	86.0	42.8	1.1	7,532.8	269.9	79.6	1,375.8
Trade payables	(21.9)	(14.3)	(0.9)	(7.1)	(273.7)	(5.4)	(8.2)
Loans receivable	17.8	6.9	-	-	-	-	-
Bank deposits	88.5	61.1	0.7	640.6	8.9	24.2	1.0
Borrowings	(117.8)	-	-	-	-	-	-
Deferred purchase price	(25.7)	(3.0)	-	-	-	-	-
Total	**26.9**	**93.5**	**0.9**	**8,166.3**	**5.1**	**98.4**	**1,368.6**

2015

	Currencies (all amounts in millions)						
	EUR	USD	CHF	RUB	RON	PLN	KZT
Trade receivables	73.2	37.3	1.2	5,761.6	251.2	76.1	1,070.5
Trade payables	(22.0)	(6.7)	(0.2)	(14.8)	(240.2)	(3.5)	(1.9)
Loans receivable	16.2	8.2	-	-	-	-	-
Bank deposits	179.3	87.9	1.0	1,151.5	51.7	44.5	78.6
Borrowings	(137.5)	-	-	-	-	-	-
Deferred purchase price	(36.6)	(2.8)	-	-	-	-	-
Total	**72.6**	**123.9**	**2.0**	**6,898.3**	**62.7**	**117.1**	**1,147.2**

III.) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers. The Group regularly assesses its customers and establishes payment terms and credit limits associated to them. Richter also reviews the payment of the receivables regularly and monitors the overdue balances. The Group also regularly requires securities (e.g. credit insurance, bank guarantees) from its customers. If the customers reached the contractual credit limit and even not able to present any securities required, further shipments can be suspended by the Group.

The Group does business with key customers in many countries. These customers are major import distributors in their countries and management of the Group maintains close contact with them on an ongoing basis. Provisions for doubtful receivables are estimated by the Group's management based on prior experience and current economic environment. The following securities are applied to minimize the credit risk.

Regions	Trade receivables secured as at 31 December 2016	Type of security		
		Credit insurance	Bank guarantee	L/C
	HUFm	HUFm	HUFm	HUFm
CIS	26,164	19,580	6,584	-
EU	400	-	400	-
USA	-	-	-	-
China	-	-	-	-
Latin America	-	-	-	-
Other	332	32	124	176
Total	**26,896**	**19,612**	**7,108**	**176**

Regions	Trade receivables secured as at 31 December 2015	Type of security		
		Credit insurance	Bank gnarantee	L/C
	HUFm	HUFm	HUFm	HUFm
CIS	14,668	14,086	582	-
EU	183	-	183	-
USA	-	-	-	-
China	-	-	-	-
Latin America	-	-	-	-
Other	366	129	115	122
Total	**15,217**	**14,215**	**880**	**122**

Credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with credit ratings assigned by international rating agencies presented below.

The credit rating of the five most significant banks as of 31 December 2016 based on Standard and Poor's international credit rating institute are the followings (if such credit rating is not available we present the rating of its "ultimate parent"):

	2016	2015
BNP Paribas Hungary Branch (ultimate parent – BNP Paribas SA)	A	A+
Erste Bank Hungary Zrt.*	BBB	BBB-
K&H Bank Zrt*	BBB	BBB-
OTP Bank Nyrt.	BB+	BB
Unicredit Bank Zrt (ultimate parent - UniCredit SpA)	BBB-	BBB-

* For these financial institutes we present the rating of Fitch Ratings since Standard and Poor's data is not available.

The Group holds more than 61% of its cash and cash equivalents as of 31 December 2016 (more than 34% as of 31 December 2015) in the above mentioned financial institutes. The other bank relations of the Group are widely dispersed, therefore the credit exposure with one financial institution is limited.
The Group has no significant concentration of credit risk, with its exposure spread over a large number of counterparties and customers.

Credit rating of held to maturity investment and "Exchangeable bonds" is Baa3 according to Moody's international credit rating institute (Note 15).

IV.) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group. These forecasts are updated on a monthly basis based on actual data. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times so that the Group does not breach covenants. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance. Group treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities.
Besides these, on operational level various cash pool systems throughout the Group help to optimise liquidity surplus and need on a daily basis.
The liquidity risk of the Group was limited in 2016 and 2015, since the Cash and cash equivalents presented in the balance sheet exceeds the Current liabilities and the balance of the Current assets is higher than the total liabilities.

The banks of the Group issued the guarantees detailed below, enhancing the liquidity in a way that the Group did not have to provide for these cash amounts:

	2016 HUF m	2015 HUF m
Bank guarantee relating to Government Grant	1,661	1,661
Bank guarantee for National Tax and Customs Administration of Hungary – collaterals for customs and excise duty related liabilities	109	107
Other, individually not relevant bank guarantees	80	82

11. Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows:

Level 1 measurements are at quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 measurements are valuations techniques with all material inputs observable at the market for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses unobservable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the Consolidated Balance Sheet at the end of each reporting period.

The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

HUFm	Notes	2016				2015			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets									
Other financial assets	15	13,255	-	-	**13,255**	8,169	-	-	**8,169**
Investments in securities	22	751	-	-	**751**	-	2,446	-	**2,446**
Foreign exchange forward contracts	21	-	-	-	-	-	4	-	**4**
Convertible loan option	15			79	79	-	-	148	**148**
"Exchangeable bonds" option	15	-	-	1,888	**1,888**	-	-	-	-
Total assets recurring fair value measurements		**14,006**	-	**1,967**	**15,973**	**8,169**	**2,450**	**148**	**10,767**
Financial liabilities									
Other non-current liabilities	27.1	-	-	-	-	-	-	5,694	**5,694**
Other payables	27.1			8,446	**8,446**	-	-	6,370	**6,370**
Total liabilities recurring fair value measurements		-	-	**8,446**	**8,446**	-	-	**12,064**	**12,064**

There were no changes in valuation method neither for level 1, nor for level 2 and level 3 recurring fair value measurements during the year ended 31 December 2016 and 2015.

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2016 and 2015 (Note 3.1):

	Fair value at 31 December 2016 HUFm	Valuation technique	Unobservable inputs	Range of inputs (weighted average)	Sensitivity of fair value measurement
Assets at fair value					
Convertible loan option EVESTRA	79	Option valuation model	• Price of the stock	3.0 USD/share	The change of the stock price multiples the fair value
			• Strike price of the option	3.5 USD/share	The higher the strike price the lower the fair value
			• Time in years	0.93 year	The longer the time in years the higher the fair value
			• The annualised risk free rate	0.78 %	The higher the annualised risk free rate the higher the fair value
			• Standard deviation of the stock's returns (volatility)	28.34 %	The higher the standard deviation the higher the fair value
"Exchangeable bonds" option*	1,888	Option valuation model	• Price of the stock	6,190 HUF/share	The change of the stock price multiples the fair value
			• Strike price of the option	5,966 HUF/share	The higher the strike price the lower the fair value
			• Time in years	2.16 year	The longer the time in years the higher the fair value
			• Standard deviation of the stock's returns (volatility)	18.97 %	The higher the standard deviation the higher the fair value
Contingent- deferred liabilities at fair value					
GRMed**	7,565	Discounted cash flows (DCF)	• Estimated future profits		
			• Foreign exchange rate	42.28 HUF/CNY	The higher the FX rate the higher the fair value
GR Mexico***	881	Discounted cash flows (DCF)	• Foreign exchange rate	293.69 HUF/USD	The higher the FX rate the higher the fair value
			• Nominal amount outstanding	USD 3.0 million	
Total recurring fair value measurements at Level 3	**10,413**				

* MNV bond contains an "exchangeable bond" option classified as embedded derivative according to IAS 39. The fair value of this option is HUF 1,888 million and presented separately in the Consolidated Financial Statements. In previous years it was not significant (for detailed information see Note 15).

** Since the last payment was already settled in 2017 therefore the time value is insignificant and the liability have not been discounted as of 31 December 2016 and there is no uncertainty as of 31 December 2016.

*** Since the liability was already settled in 2017 therefore the time value is insignificant and the liability have not been discounted as of 31 December 2016. The nominal amount outstanding is depending on the profitability of the company.

	Fair value at 31 December 2015 HUFm	Valuation technique	Unobservable inputs	Range of inputs (weighted average)	Sensitivity of fair value measurement
Assets at fair value					
Convertible loan option EVESTRA	148	Option valuation model	• Price of the stock	3.0 USD/share	The change of the stock price multiples the fair value
			• Strike price of the option	3.5 USD/share	The higher the strike price the lower the fair value
			• Time in years	1.93 year	The longer the time in years the higher the fair value
			• The annualised risk free rate	1.02 %	The higher the annualised risk free rate the higher the fair value
			• Standard deviation of the stock's returns (volatility)	28.34 %	The higher the standard deviation the higher the fair value
Contingent- deferred liabilities at fair value					
GRMed	11,254	Discounted cash flows (DCF)	• Estimated future profits		
			• Foreign exchange rate	44.14 HUF/CNY	The higher the FX rate the higher the fair value
			• Industry WACC	11.01%	The higher the WACC the lower the fair value
GR Mexico*	810	Discounted cash flows (DCF)	• Foreign exchange rate	286.63 HUF/USD	The higher the FX rate the higher the fair value
			• Industry WACC	9.64%	The higher the WACC the lower the fair value
			• Nominal amount outstanding	USD 3.0 million	
Total recurring fair value measurements at Level 3	**12,212**				

* The nominal amount outstanding is depending on the profitability of the company.

The above tables disclose sensitivity to valuation inputs for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly. For this purpose, significance was judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

There were no changes in valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2015 and 2016.

	PregLem HUFm	GRMed HUFm	GR Mexico HUFm
Fair value at 1 January 2015	**14,705**	**14,438**	**1,067**
Effect of paid consideration	(17,858)	(7,037)	(427)
Effect of unwinding of interest*	220	299	54
Effect of change of probabilities**	786	-	-
Effect of fx*	2,147	1,133	116
Effect of change in estimated cash-flow**	-	2,421	-
Fair value at 31 December 2015	**-**	**11,254**	**810**
Fair value at 1 January 2016	-	11,254	810
Effect of paid consideration	-	(6,189)	-
Effect of unwinding of interest*	-	898	50
Effect of fx*	-	(248)	21
Effect of change in estimated cash-flow**	-	1,850	-
Fair value at 31 December 2016	**-**	**7,565**	**881**

* Effect of unwinding of interest and effect of realised and unrealised fx are presented as financial loss or gain.
** Effect of change of probabilities and effect of change in estimated cash-flow is presented as Other income and expenses (net).

In the view of Richter's management the preconditions for the milestone payment related to Mediplus Group acquisition will not be met, therefore the fair value of the liability in respect of this transaction is zero in 2016 and in 2015.

(b) Non-recurring fair value measurements

The Group did not have non-recurring fair value measurement of any assets or liabilities.

(c) Valuation processes for recurring and non-recurring level 3 fair value measurements

Level 3 valuations are reviewed annually by the Group's financial director who reports to the Board of Directors. The financial director considers the appropriateness of the valuation model inputs, as well as the valuation result using various valuation methods and techniques. In selecting the most appropriate valuation model the director performs back testing and considers which model's results have historically aligned most closely to actual market transactions.

(d) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets and liabilities not measured at fair value is presented at Note 10. The fair value of the financial assets and liabilities carried at amortized cost does not significantly differ from its carrying amount.

12. Property, plant and equipment and Other intangible assets

	Land and buildings HUFm Restated*	Plant and equipment HUFm Restated*	Construction in progress HUFm	Total HUFm Restated*
Gross value				
at 31 December 2014	**141,887**	**226,060**	**14,422**	**382,369**
Translation differences	(1,742)	(741)	(183)	**(2,666)**
Capitalization	5,600	16,909	(22,509)	-
Transfers and capital expenditure	81	15	27,716	**27,812**
Disposals	(193)	(4,572)	(5)	**(4,770)**
at 31 December 2015	**145,633**	**237,671**	**19,441**	**402,745**
Accumulated depreciation				
at 31 December 2014	**35,455**	**174,740**	-	**210,195**
Translation differences	(231)	(351)	-	**(582)**
Current year depreciation	4,299	15,299	-	**19,598**
Net foreign currency exchange differences	(31)	(109)	-	**(140)**
Transfer / (disposals)	30	(4,306)	-	**(4,276)**
at 31 December 2015	**39,522**	**185,273**	**-**	**224,795**
Net book value				
at 31 December 2014	**106,432**	**51,320**	**14,422**	**172,174**
at 31 December 2015	**106,111**	**52,398**	**19,441**	**177,950**

* See Note 39 for details regarding the restatement.

	Land and buildings HUFm	Plant and equipment HUFm	Construction in progress HUFm	Total HUFm
Gross value				
at 31 December 2015*	**145,633**	**237,671**	**19,441**	**402,745**
Translation differences	1,594	621	134	**2,349**
Effect of newly acquired companies (Note 36)	-	484	-	**484**
Capitalization	10,466	21,132	(31,598)	-
Transfers and capital expenditure	-	56	30,820	**30,876**
Disposals	(229)	(6,208)	(11)	**(6,448)**
at 31 December 2016	**157,464**	**253,756**	**18,786**	**430,006**
Accumulated depreciation				
at 31 December 2015	**39,522**	**185,273**	-	**224,795**
Translation differences	(6)	126	-	**120**
Effect of newly acquired companies (Note 36)	-	21	-	**21**
Current year depreciation	4,324	15,843	-	**20,167**
Net foreign currency exchange differences	24	88	-	**112**
Transfer / (disposals)	(435)	(5,776)	-	**(6,211)**
at 31 December 2016	**43,429**	**195,575**	-	**239,004**
Net book value				
at 31 December 2015	**106,111**	**52,398**	**19,441**	**177,950**
at 31 December 2016	**114,035**	**58,181**	**18,786**	**191,002**

* See Note 39 for details regarding the restatement.

All items of Property, plant and equipment are free from liens and charges. The amount of Land and buildings does not contain any Investment property.

	Rights HUFm	Intellectual property HUFm	Research and development HUFm	ESMYA* HUFm	Total HUFm
Gross value					
at 31 December 2014	**124,820**	**3,424**	**423**	**76,801**	**205,468**
Translation differences	717	30	-	8,074	**8,821**
Acquisition	5,335	259	-	-	**5,594**
Disposals	(281)	(126)	-	-	**(407)**
at 31 December 2015	**130,591**	**3,587**	**423**	**84,875**	**219,476**
Accumulated amortization					
at 31 December 2014	**43,542**	**2,009**	**85**	**7,252**	**52,888**
Translation differences	303	29	-	763	**1,095**
Current year amortization	8,360	277	84	2,929	**11,650**
Net foreign currency exchange differences	(11)	1	-	(14)	**(24)**
Impairment and reversal of impairment (net)	3,068	-	-	-	**3,068**
Disposals	(18)	(10)	-	-	**(28)**
at 31 December 2015	**55,244**	**2,306**	**169**	**10,930**	**68,649**
Net book value					
at 31 December 2014	**81,278**	**1,415**	**338**	**69,549**	**152,580**
at 31 December 2015	**75,347**	**1,281**	**254**	**73,945**	**150,827**

* The ESMYA presented as separate subcategory within the intangible assets represents the intangible asset recognized at the acquisition of PregLem.

	Rights	Intellectual property	Research and development	ESMYA*	BEMFOLA**	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Gross value						
at 31 December 2015	**130,591**	**3,587**	**423**	**84,875**	-	**219,476**
Translation differences	(239)	(13)	-	9	(649)	**(892)**
Effect of newly acquired companies (Note 36)	-	-	-	-	52,513	**52,513**
Acquisition	5,690	212	-	-	-	**5,902**
Disposals	(295)	(85)	-	-	-	**(380)**
at 31 December 2016	**135,747**	**3,701**	**423**	**84,884**	**51,864**	**276,619**
Accumulated amortization						
at 31 December 2015	**55,244**	**2,306**	**169**	**10,930**	-	**68,649**
Translation differences	(158)	(11)	-	1	-	**(168)**
Effect of newly acquired companies (Note 36)	-	-	-	-	-	-
Current year amortization	8,402	313	85	2,886	1,042	**12,728**
Net foreign currency exchange differences	-	-	-	29	(5)	**24**
Impairment and reversal of impairment (net)	2,934	-	-	-	-	**2,934**
Disposals	(192)	(33)	-	-	-	**(225)**
at 31 December 2016	**66,230**	**2,575**	**254**	**13,846**	**1,037**	**83,942**
Net book value						
at 31 December 2015	**75,347**	**1,281**	**254**	**73,945**	-	**150,827**
at 31 December 2016	**69,517**	**1,126**	**169**	**71,038**	**50,827**	**192,677**

* The ESMYA presented as separate subcategory within the intangible assets represents tbe intangible asset recognized at the acquisition of PregLem.
** The BEMFOLA presented as separate subcategory within the intangible assets represents the intangible asset recognized at the acquisition of Finox.

All intangible assets are free from liens and charges. The intangible assets of the Group, except for R&D, are not own produced.

ESMYA (covering the entire ESMYA column above EU/USA region)
In the course of PregLem S.A.'s acquisition the rights attached to the distribution in the EU and the USA of ESMYA®, the company's most important product was recognised as an independent intangible asset in 2010. The amortization of this asset started in the second quarter of 2012 as a result of the market launch of the product with an estimated useful life of 25 years. ESMYA asset belongs to a CGU with goodwill – see details of impairment testing of the CGU in Note 18 – PregLem S.A.

BEMFOLA
The intangible asset was recognised at the acquisition transaction of Finox (see Note 36) in the value of HUF 50,916 million with 25 years useful life. The amortisation of this asset started in 2016.
Another intangible asset was recognised during the acquisition in the amount of HUF 1,597 million, as Customer Relationship. The value of this intangible was considerably smaller compared to BEMFOLA.

The most significant Rights are described below, with related impairment test where applicable:

Net book value	**31 December 2016** HUFm	**31 December 2015** HUFm
ESMYA LatAm	9,221	9,371
Grünenthal	39,089	43,515
Lisvy ®	-	3,407
Lenzetto®	893	915
Reacquired right	213	1,113
Pharmacy licenses	2,436	2,153
Other, individually non-material rights	17,665	14,873
Total	**69,517**	**75,347**

Rights – ESMYA LatAm intangible asset
In 2014 Richter purchased the right to utilisation of ulipristal acetate (ESMYA®'s active ingredient) for the Latin American region from HRA Pharma, the net book value of this right is HUF 9,221 million as of 31 December 2016 and HUF 9,371 million as of 31 December 2015.
The Company split the purchase price among markets and recognised intangible assets accordingly. The amortization of these intangibles have already been started in the markets where the product launches occurred. The only significant intangible asset not yet available for use relates to the Brazilian market (HUF 3,494 million) on which the Group has performed an impairment assessment in accordance with requirements of IAS 36. Richter prepared the impairment test as of the balance sheet date. Based on the tests no impairment is to be reported neither in 2016 nor in 2015.

The recoverable amount of ESMYA LatAm related to Brazil intangibles was also determined by the fair value less cost of disposal applying the Multi-Period Excess Earnings Method. The cash flow generated by the use of the intangible asset derives from Brazil only.

The calculations were based on the medium and long term projection adopted by the management.
Product launch is expected in 2018. Sales revenue peaks in 2019 and starts declining in 2020 with the appearance of generic products. From 2022 the turnover will remain virtually the same. Cash flows show a slight decrease in the remaining period (due to the inflation based growth of costs).

The discount rate (post tax: 10.1%; in 2015 12.1%) applied reflects current market assessments of the time value of money and the risks specific to the CGU for which future cash flow estimates have not been adjusted.

Any reasonable change in the key assumptions is still not expected to result in an impairment of this intangible asset.

Rights – Grünenthal
The product rights acquired from Grünenthal in 2010 containing manufacturing rights (amounted to EUR 600 thousand) and market authorisation (amounted to EUR 235.9 million) together with the value of the established products brand are presented as Rights. The estimated useful life for both rights is 15 years. The amortization period started in 2010. Net book value of the rights in relation to Grünenthal is HUF 39,089 million as of 31 December 2016 and HUF 43,515 million as of 31 December 2015.

Rights – Lisvy®
On 27 January 2015 Richter announced that it entered into a license and distribution agreement with Bayer HealthCare to commercialize the low-dose gestodine and ethinyl estradiol containing transdermal contraceptive patch of Bayer in the European Union, in other European countries and also in certain Latin American countries under the trademark of Lisvy®. The value of the trademark was presented as Rights.
On 10 October 2016 Richter initiated the voluntary withdrawal of Lisvy®. The step was taken with immediate effect on all markets involved.
The decision followed a notification received from Bayer HealthCare, the licensor and supplier of Lisvy®, according to which certain stability tests carried out under specific conditions resulted in out-of specification results. Consequently Bayer commenced an investigation to determine the root cause of such non-specific responses. In this endeavour Richter closely co-operates with Bayer.
The product withdrawal resulted in a write-off for the total amount of Lisvy intangible asset.

Rights – Lenzetto®
In 2015 Richter purchased exclusive license in Europe for Lenzetto®, the estradiol spray for treating menopause symptoms manufactured by the Australian pharma company Acrux. Lenzetto® has received multiple marketing approvals in several European countries.
The value of the license is presented as Rights. The estimated useful life is 10 years. The amortization period started in 2015 those markets that the product had already launched. The net book value of the license is HUF 915 million as of 31 December 2015 and HUF 893 million as of 31 December 2016.

Rights – Reacquired right
The reacquired right arising from the business combination in China in 2013 amortised over the estimated useful life of 39 months starting from 31 December 2013. Net book value of the reacquired right was HUF 1,113 million as of 31 December 2015 and HUF 213 million as of 31 December 2016.

Rights – Other
Impairment test was performed on the value of pharmacy licenses in Romania (presented in the Wholesale and retail segment) and as a consequence to that we had to account for HUF 40 million as impairment loss and 450 million as reversal of impairment in 2016 and HUF 366 million impairment loss and 1,150 million as reversal of impairment in 2015. The goodwill related to the pharmacy licenses was also tested for impairment, which is described in Note 18 under the Armedica Trading Group subheading. For pharmacy licenses where the recoverable amount was lower than the carrying value, impairment was recognized first on goodwill balance related to the license, and the remainder of the impairment loss was recognized on the pharmacy licenses. Net book value of pharmacy licenses was HUF 2,436 million as of 31 December 2016 and HUF 2,153 million as of 31 December 2015.

In September 2015 the Board resolved to approve the discontinuation of PGL 1 research project and wrote-off the related Intangible assets (including license fees) in the amount of HUF 590 million.

On 21 September 2015 Gedeon Richter Plc. announced that the license and collaboration agreement established with the US based Palatin Technologies, Inc. in September 2014, to co-develop and commercialize bremelanotide for female sexual dysfunction (FSD) indications in the European Union, other European countries and additional selected countries was terminated under mutually agreed terms fully releasing the parties from any and all legal and financial claims or obligations. The book value of the related license was written off as impairment in the amount of HUF 3,134 million in 2015.

The average remaining useful life of the intellectual properties does not exceed 7 years.

13. Consolidated companies

Details of the Group's subsidiaries at 31 December are as follows:

Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		2016	2015	2016	2015	
AO Gedeon Richter - RUS	Russia	100.00	100.00	100.00	100.00	Pharmaceutical manufacturing
Gedeon Richter Romania S.A.	Romania	99.92	99.90	99.92	99.90	Pharmaceutical manufacturing
Gedeon Richter Polska Sp. z o.o.	Poland	99.84	99.84	99.84	99.84	Pharmaceutical manufacturing
Richter Themis Pvt. Ltd.	India	51.00	51.00	51.00	51.00	Pharmaceutical manufacturing
Gedeon Richter Pharma GmbH	Germany	100.00	100.00	100.00	100.00	Pharmaceutical trading
Gedeon Richter USA Inc.	USA	100.00	100.00	100.00	100.00	Pharmaceutical trading
RG Befektetéskezelő Kft.	Hungary	100.00	100.00	100.00	100.00	Financial-accounting and controlling activities
Gedeon Richter UA PAT	Ukraine	98.16	98.16	98.16	98.16	Pharmaceutical trading
Gedeon Richter UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
Gedeon Richter Iberica S.A.U	Spain	100.00	100.00	100.00	100.00	Pharmaceutical trading
Nedermed B.V.	The Netherlands	100.00	100.00	100.00	100.00	Pharmaceutical trading
Medimpex Japan Co. Ltd.	Japan	90.90	90.90	90.90	90.90	Pharmaceutical trading
Medimpex Jamaica Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
Medimpex West Indies Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
Humanco Kft.	Hungary	100.00	100.00	100.00	100.00	Social, welfare services
Pesti Sas Holding Kft.	Hungary	100.00	100.00	100.00	100.00	Portfolio management
Richter Szolgáltató Kft.	Hungary	100.00	100.00	100.00	100.00	Catering services
Reflex Kft.	Hungary	100.00	100.00	100.00	100.00	Transportation, carriage
Chemitechnik Pharma Kft.	Hungary	66.67	66.67	66.67	66.67	Engineering services
GYEL Kft.	Hungary	66.00	66.00	66.00	66.00	Quality control services
Armedica Trading S.R.L.	Romania	99.92	99.90	99.92	99.90	Asset management
Gedeon Richter Farmacia S.A.	Romania	99.92	99.90	99.92	99.90	Pharmaceutical retail
Gedeon Richter France S.A.S.	France	100.00	100.00	100.00	100.00	Pharmaceutical retail
I.M. Gedeon Richter-Retea Farmaceutica S.R.L.	Moldavia	51.00	51.00	51.00	51.00	Pharmaceutical retail
Richter-Helm BioLogics GmbH & Co. KG	Germany	70.00	70.00	70.00	70.00	Biotechnological manufacturing and research
Richter-Helm BioLogics Management GmbH	Germany	70.00	70.00	70.00	70.00	Asset management
Medimpex UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
Farnham Laboratories Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
Gedeon Richter Aptyeka SP OOO	Armenia	51.00	51.00	51.00	51.00	Pharmaceutical retail
Pharmafarm S.A.	Romania	99.92	99.90	99.92	99.90	Pharmaceutical wholesale
Gedeon Richter Ukrfarm TOV	Ukraine	100.00	100.00	100.00	100.00	Pharmaceutical retail

Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		2016	2015	2016	2015	
Gedeon Richter Marketing Polska Sp. z o.o.	Poland	99.97	99.97	99.97	99.97	Marketing services
Gedeon Richter Italia S.R.L.	Italy	100.00	100.00	100.00	100.00	Pharmaceutical retail
PregLem S.A.	Switzerland	100.00	100.00	100.00	100.00	Manufacturing and research
Gedeon Richter Marketing ČR s.r.o.	Czech Republic	100.00	100.00	100.00	100.00	Marketing services
Gedeon Richter Slovakia s.r.o.	Slovak Republic	100.00	100.00	100.00	100.00	Marketing services
Richter-Lambron SP OOO	Armenia	51.00	51.00	51.00	51.00	Pharmaceutical trading
Gedeon Richter Austria GmbH	Austria	100.00	100.00	100.00	100.00	Marketing services
Gedeon Richter (Schweiz) AG	Switzerland	100.00	100.00	100.00	100.00	Marketing services
Pharmarichter OOO	Russia	100.00	100.00	100.00	100.00	Pharmaceutical sales promotion
I.M. Rihpangalpharma S.R.L.	Moldavia	65.00	65.00	65.00	65.00	Pharmaceutical trading
Gedeon Richter Portugal, Unipessoal Lda.	Portugal	100.00	100.00	100.00	100.00	Marketing services
PregLem France S.A.S.	France	100.00	100.00	100.00	100.00	Marketing services
Pesti Sas Patika Bt.*	Hungary	-	74.00	-	74.00	Pharmaceutical retail
Gedeon Richter Slovenija, d.o.o.	Slovenia	100.00	100.00	100.00	100.00	Marketing services
Gedeon Richter Benelux SPRL	Belgium	100.00	100.00	100.00	100.00	Marketing services
Gedeon Richter Nordics AB	Sweden	100.00	100.00	100.00	100.00	Marketing services
TOO Gedeon Richter KZ	Kazakhstan	100.00	100.00	100.00	100.00	Marketing services
Grmed Company Ltd.	Hong-Kong	100.00	100.00	91.00	81.00	Asset management
Rxmidas Pharmaceuticals Company Ltd.	China	100.00	100.00	91.00	81.00	Marketing services
Gedeon Richter Pharmaceuticals (China) Co. Ltd.	China	100.00	100.00	91.00	81.00	Marketing services
Gedeon Richter Colombia S.A.S.	Columbia	100.00	100.00	100.00	100.00	Pharmaceutical trading
Gedeon Richter Croatia d.o.o.	Croatia	100.00	100.00	100.00	100.00	Marketing services
Gedeon Richter Mexico, S.A.P.I. de C.V	Mexico	100.00	100.00	80.00	80.00	Pharmaceutical trading
Gedeon Richter do Brasil Importadora, Exportadora e Distribuidora S.A.	Brazil	51.00	51.00	51.00	51.00	Pharmaceutical trading
Comercial Gedeon Richter (Chile) Ltda.	Chile	100.00	100.00	100.00	100.00	Pharmaceutical trading
Mediplus (Economic Zone) N.V.	Curaçao	100.00	100.00	100.00	100.00	Pharmaceutical trading
Gedeon Richter Peru S.A.C.	Peru	100.00	100.00	100.00	100.00	Pharmaceutical trading
GEDEONRICHTER Ecuador S.A.	Ecuador	100.00	100.00	100.00	100.00	Pharmaceutical trading
Gedeon Richter Bolivia SRL	Bolivia	100.00	100.00	100.00	100.00	Pharmaceutical trading

* Followed by certain legal actions Richter has sold the majority ownership in Pesti Sas Patika Bt. on 14 December 2016. As a consequence of this sale ownership reduced to 49%. The impact of it was not significant.

Subsidiaries newly included in the consolidation

Name	Date of establish-ment/ acquisition	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
			2016	2015	2016	2015	
Gedeon Richter Rxmidas Joint Venture Co. Ltd.*	01.2016	Hong-Kong	100.00	50.00	100.00	50.00	Marketing services
Grmidas Medical Service (China) Co.Ltd.*	01.2016	China	100.00	50.00	100.00	50.00	Pharmaceutical trading
Finox Holding AG**	07.2016	Switzerland	100.00	-	100.00	-	Asset management
Finox AG**	07.2016	Switzerland	100.00	-	100.00	-	Biotechnological manufacturing
Finox Biotech AG**	07.2016	Lichtenstein	100.00	-	100.00	-	Trading of biotech products
Finox Biotech Germany GmbH**	07.2016	Germany	100.00	-	100.00	-	Marketing services
Finox Biotech Nordics AB.**	07.2016	Sweden	100.00	-	100.00	-	Marketing services
Finox Biotech Iberia S.L.**	07.2016	Spain	100.00	-	100.00	-	Marketing services
Finox Biotech France SARL**	07.2016	France	100.00	-	100.00	-	Marketing services
Finox Biotech Italy S.r.l.**	07.2016	Italy	100.00	-	100.00	-	Marketing services
Finox Biotech UK and Ireland Ltd.**	07.2016	UK	100.00	-	100.00	-	Marketing services
Finox Biotech Benelux BV**	07.2016	Belgium	100.00	-	100.00	-	Marketing services
Finox Biotech Eastern Europe**	07.2016	Poland	100.00	-	100.00	-	Marketing services
Finox Biotech Australia PTY Ltd.**	07.2016	Australia	100.00	-	100.00	-	Trading of biotech products

* Increase of ownership in Gedeon Richter Rxmidas Joint Venture Co. Ltd. and Grmidas Medical Service (China) Co.Ltd.is described separately in Note 36.
** Companies of the newly acquired Finox Group, see Note 36.

13.1 Summarised financial information on subsidiaries with material non-controlling interests

The total non-controlling interest as of 31 December 2016 is HUF 3,871 million, of which HUF 1,816 million is for Richter-Helm BioLogics GmbH & Co. KG, HUF 1,319 million is attributed to Medimpex West Indies Ltd.. The impact of other owners of the remaining subsidiaries with non-controlling interests are insignificant on the Group.

2016	Medimpex West Indies Ltd.	Richter-Helm BioLogics GmbH & Co. KG
	HUFm	HUFm
Accumulated non-controlling interest	1,319	1,816
Non-current assets	50	4,638
Current assets	3,786	4,745
Non-current liabilities	-	2,307
Current liabilities	510	1,022
Revenues	3,069	9,140
Profit/(loss)	450	1,706
Dividends paid	140	-
Total cash-flow	(6)	(337)

2015	Medimpex West Indies Ltd.	Richter-Helm BioLogics GmbH & Co. KG
	HUFm	HUFm
Accumulated non-controlling interest	1,160	1,314
Non-current assets	55	4,787
Current assets	3,495	3,764
Non-current liabilities	-	3,288
Current liabilities	621	884
Revenues	3,009	7,806
Profit/(loss)	352	475
Dividends paid	17	-
Total cash-flow	297	716

In case of subsidiaries with material non-controlling interests Other comprehensive income is not material (see the Consolidated Statement of Changes in Equity), the Company does not state it individually.

Amounts of assets, liabilities, revenues, profit/loss and dividends are presented at 100%, before intercompany eliminations.

The non-controlling interest is recognised to the extent the risks and rewards of ownership of those shares remain with them. For each acquisition the terms of the contracts are analysed in detail. In case of complex scenarios (e.g when contingent-deferred purchase prices are also involved), factors considered includes, the pricing of the forward contract, any ability to avoid future payment, whether share price movements during the contract period result in benefits and losses being borne by the Group or by the non-controlling shareholder. Based on thorough analysis we concluded that the acquisition of Gedeon Richter Mexico, S.A.P.I. de C.V. in 2014 provided the Group with access to the economic benefits and risks of the shares during the contract period, therefore no non-controlling interests were recognised on these acquisitions.

14. Investments in associates and joint ventures

	2016 HUFm	2015 HUFm
At 1 January	**7,140**	**5,408**
Additional payment	80	110
Share of profit/(loss) of associates and joint ventures	1,798	1,502
Net investments*	871	241
Dividend	(256)	(172)
Reclassification to subsidiary (Note 36)**	(997)	-
Reclassification to associates***	12	-
Impairment	(57)	-
Exchange difference	(50)	51
At 31 December	**8,541**	**7,140**
out of investment in associates	*7,305*	*4,948*
out of investment in joint ventures	*1,236*	*2,192*

* Share of loss and exchange difference recognized against loans provided to joint ventures (as net investment in joint ventures) in accordance with IAS 28.38.
** Gedeon Richter Rxmidas Joint Venture Co.Ltd. was handled as joint venture in 2015.
*** Pesti Sas Patika Bt. was subsidiary in 2015.

Reconciliation of the summarised financial information presented to the carrying amount of the associates, highlighting the most significant associate of the Group (Hungaropharma Zrt.). Since Hungaropharma Zrt. is a group preparing IFRS consolidated financial statements, therefore in the net asset figure below, the "consolidated net asset attributable to the owner of the parent" was taken into account.

	2016 HUFm	2015 HUFm
Opening net assets at 1 January of Hungaropharma Zrt.	**15,191**	**11,508**
Profit for the year*	7,693	3,836
Dividends	(246)	(153)
Closing net assets of Hungaropharma Zrt. at 31 December	**22,638**	**15,191**
Interest in associate (at 30.85%)	6,984	4,686
Unrealised profit elimination	(52)	(38)
Interest in other associates	373	300
Carrying value at 31 December	**7,305**	**4,948**

* The profit for the year was adjusted to reflect the difference between the audited and non-audited balance of the associate as of the previous year. The adjustment was not material.

Similar reconciliation of the investment in joint ventures is not performed, since they are considered to be not significant.

At 31 December the following associates have been accounted for by the equity method:

Name	Place of incorporation	Principal activity	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenues	Profit/ (loss)	Interest held
			HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	%
2016									
Hungaropharma Zrt.	Hungary	Pharmaceutical wholesale	8,411	51,421	725	36,469	276,191	8,424	30.85
Salvia-Med Bt.	Hungary	Pharmaceutical retail	1	65	-	28	522	22	32.79
Szondi Bt.	Hungary	Pharmaceutical retail	38	155	-	25	531	43	33.00
Top Medicina Bt.	Hungary	Pharmaceutical retail	28	40	-	38	360	8	20.00
Vita-Richter SP OOO**	Azerbaijan	Pharmaceutical trading	997	-	856	-	-	-	49.00
Pharmapolis Kft.	Hungary	Building project management	5,069	435	3,199	2,299	381	3	24.00
Pharmatom Kft.***	Hungary	Biotechnological research, development	434	6	-	441	1	(3)	24.00
Pesti Sas Patika Bt.*	Hungary	Pharmaceutical retail	2	22	-	12	121	(5)	49.00

* Followed by certain legal actions Richter has sold the majority ownership in Pesti Sas Patika Bt. on 14 December 2016. As a consequence of this sale ownership reduced to 49%. The impact of it was not significant.
** An impairment loss was recognised related to the investment in Vita-Richter, because of the lack of real control.
*** Pharmatom Kft. – which was founded with the aim of perform government granted R&D projects – not prospering which was an indicator for impairment.

Name	Place of incorporation	Principal activity	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenues	Profit/ (loss)	Interest held
			HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	%
2015									
Hungaropharma Zrt.	Hungary	Pharmaceutical wholesale	8,713	44,898	2,967	35,333	269,520	4,078	30.85
Salvia-Med Bt.	Hungary	Pharmaceutical retail	2	60	-	23	487	21	32.79
Szondi Bt.	Hungary	Pharmaceutical retail	39	133	-	18	466	29	33.00
Top Medicina Bt.	Hungary	Pharmaceutical retail	29	41	-	41	365	10	20.00
Vita-Richter SP OOO	Azerbaijan	Pharmaceutical trading	809	-	695	-	-	-	49.00
Pharmapolis Kft.	Hungary	Building project management	5,362	318	3,299	2,458	313	(81)	24.00
Cerorin Kft.	Hungary	Biotechnological research, development	-	1	-	-	-	(1)	24.00
Pharmatom Kft.	Hungary	Biotechnological research, development	404	8	-	439	-	(31)	24.00

The financial statements for 2016 of Hungaropharma Zrt, the most significant associate of the Group have not been audited yet. Corresponding data for year 2015 has not been amended in 2016 Consolidated Financial Statements as there were no material differences between the audited and unaudited figures of 2015.
Amounts of assets, liabilities, revenues and profit/loss are presented at 100%.
The associates did not have any item in Other Comprehensive Income (in 2016 and 2015).

At 31 December the following joint ventures have been accounted for using the equity method:

Name	Place of incorporation	Principal activity	Non-cnrrent assets	Current assets	Non-current liabilities	Current liabilities	Revenues	Profit/ (loss)	OCI	Interest held
			HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	%
2016										
Medimpex Irodaház Kft.*	Hungary	Renting real estate	2,486	47	26	37	310	81	-	50.00
Richter-Helm BioTec Management GmbH	Germany	Asset management	-	7	-	0	-	0	0	50.00
Richter-Helm BioTec GmbH & Co. KG	Germany	Trading of biotech products	-	1,088	10,923	522	1,601	(743)	34	50.00

Name	Place of incorporation	Principal activity	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenues	Profit/ (loss)	OCI	Interest held
			HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	%
2015										
Gedeon Richter Rxmidas JV Co. Ltd.	Hong-Kong	Marketing services	-	2,179	-	186	2,291	985	27	50.00
Medimpex Irodaház Kft.*	Hungary	Renting real estate	2,508	69	33	155	262	49	-	50.00
Richter-Helm BioTec Management GmbH	Germany	Asset management	-	8	-	1	0	(1)	-	50.00
Richter-Helm BioTec GmbH & Co. KG	Germany	Trading of biotech products	-	616	10,057	238	1,240	(529)	24	50.00

* The balance of Medimpex Irodaház Kft. contains adjustment of the fair value of the Investment property to be in line with the Accounting Policy of the Group.

Amounts of assets, liabilities, revenues and profit/loss are presented at 100%.
Neither the individual nor the cumulated figures of the joint ventures are material therefore no further disclosures are considered to be relevant.

15. Other financial assets

	31 December 2016 HUFm	31 December 2015 HUFm
Held to maturity investments carried at amortised cost	1,862	1,815
Investments carried at amortised cost as loans and receivables	15,780	16,282
Available-for-sale investments carried at fair value	13,255	8,169
Financial assets carried at fair value through profit or loss	1,967	148
Total	**32,864**	**26,414**

Held to maturity investments carried at amortised cost are bonds issued or granted by the Hungarian State.

Investments carried at amortised cost as loans and receivables comprise "exchangeable bonds" that were issued at 6 December 2013 by the Hungarian State Holding Company (MNV Zrt.) with maturity date of 2019. A minor portion was purchased by Richter in the nominal value of EUR 52 million. Bonds will be exchangeable for a cash amount determined by reference to the value of the underlying ordinary shares (the "Shares") of Gedeon Richter or, at the option of the Issuer, for such Shares. MNV bond contains an "exchangeable bond" option classified as embedded derivative according to IAS 39. After the separation of this option the net value of the bond was HUF 15,780 million as of 31 December 2016 (HUF 16,282 million as of 31 December 2015).

The only significant available-for-sale investment contains 5% ownership in Protek Holding valued at fair value based on the closing stock exchange price. Since there was significant growth in the share price, and a positive change of RUB/HUF exchange rate, an increase has been recorded against revaluation reserve for available for sale investments (through Consolidated Statement of Comprehensive Income). As a result of the above mentioned reasons, a revaluation gain was recorded both in 2016 and in 2015 (Note 24).

	31 December 2016	31 December 2015
Opening value (HUFm)	6,249	4,587
Change in fair value (HUFm)	*6,287*	*1,662*
Closing value (HUFm)	12,536	6,249
Share price (RUB/share)	99.5	61.1
RUB/HUF exchange rate	4.78	3.88
Change in the fair value (HUFm)	*6,287*	*1,662*

In 2016 the value of above stated exchangeable bond option was HUF 1,888 million which was presented as financial assets carried at fair value through profit or loss. In previous years it was not significant therefore not stated separately.

On 19 February 2015 Gedeon Richter Plc. and Evestra Inc. announced that they have signed a collaboration agreement in which Richter is providing a USD 5 million convertible loan to Evestra. Under the terms of the agreement, after three years Richter has an option to decide whether the loan is to be reimbursed, including earned interest, or converted into an equity stake in Evestra. According to IAS 39 this option was entitled as embedded derivative, measured at fair value and booked through profit and loss (fair value measurement is provided in Note 11). Initial recognition of the derivative did not impact the Consolidated Income Statement. The change in the fair value of the option resulted in HUF 69 million loss as financial costs. The loan (host instrument) is presented as Loans receivable in the Consolidated Balance Sheet (Note 21).

16. Current income tax and deferred tax

Current tax assets and liabilities

	31 December 2016 HUFm	31 December 2015 HUFm
Current tax assets	682	539
Current tax liabilities	655	425

Deferred tax is calculated by the balance sheet method based on the temporary differences. Deferred tax assets and liabilities in the Consolidated Balance Sheet are as follows:

	31 December 2016 HUFm	31 December 2015 HUFm Restated*	1 January 2015 HUFm Restated*
Deferred tax assets	5,416	8,063	9,014
Deferred tax liabilities	(5,962)	(8,939)	(8,876)

* See Note 39 for details regarding the restatement.

The movement in deferred income tax assets and liabilities during the year is as follows:

Deferred tax assets	PPE and intangible assets HUFm Restated*	Provision HUFm	Impairment HUFm	Other temporary differences HUFm	Unrealised profit elimination HUFm Restated*	Total HUFm Restated*
31 December 2014	**(3)**	**867**	**617**	**2,047**	**5,486**	**9,014**
(Debited)/credited to the income statement	(27)	152	(88)	(1,677)	675	**(965)**
(Debited)/credited to other comprehensive income**	-	12	-	53	-	**65**
Exchange differences	(9)	(1)	-	(41)	-	**(51)**
31 December 2015	**(39)**	**1,030**	**529**	**382**	**6,161**	**8,063**
(Debited)/credited to the income statement	167	(481)	(222)	(192)	(1,195)	**(1,923)**
(Debited)/credited to other comprehensive income**	-	(4)	-	(860)	-	**(864)**
Exchange differences	(1)	(8)	-	20	-	**11**
Transfer	3	(450)	(294)	870	-	**129**
31 December 2016	**130**	**87**	**13**	**220**	**4,966**	**5,416**

* See Note 39 for details regarding the restatement.

** Deferred tax assets and liabilities debited/credited to other comprehensive income was HUF 755 million (expense), out of which accounted through revaluation reserve HUF 337 million (expense, see Note 24) and HUF 418 million (expense) accounted through retained earnings.

Deferred tax liabilities	PPE and intangible assets	Provisions	Fair valuation	ESMYA*	BEMFOLA**	Other temporary differences	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
31 December 2014	**184**	**-**	**100**	**7,661**	**-**	**931**	**8,876**
Debited/(credited) to the income statement	14	-	-	(576)	-	(281)	**(843)**
Debited/(credited) to other comprehensive income	-	-	115	-	-	(37)	**78**
Exchange differences	5	-	-	809	-	14	**828**
31 December 2015	**203**	**-**	**215**	**7,894**	**-**	**627**	**8,939**
Acquisition of subsidiary	-	(69)	-	-	4,520	(433)	**4,018**
Debited/(credited) to the income statement	10	(2)	-	(6,339)	(426)	(185)	**(6,942)**
Debited/(credited) to other comprehensive income***	-	32	(79)	(62)	-	-	**(109)**
Exchange differences	(6)	-	(9)	(62)	2	-	**(75)**
Transfer	4	(450)	(293)	-	-	870	**131**
31 December 2016	**211**	**(489)**	**(166)**	**1,431**	**4,096**	**879**	**5,962**

* The most significant deferred tax liability balance presented is in relation to the acquisition of PregLem, where the deferred tax liability that arose as a result of recognition of ESMYA was partially offset by the unused tax loss of the company.

** The deferred tax liability balance presented arises in relation to the acquisition of Finox (see Note 36), where the deferred tax liability that arose as a result of recognition of BEMFOLA and the related Customer Relationship was partially offset by the unused tax loss of the company.

*** Deferred tax assets and liabilities debited/credited to other comprehensive income was HUF 755 million (expense), out of which accounted through revaluation reserve HUF 337 million (expense, see Note 24) and HUF 418 million (expense) accounted through retained earnings.

From the deferred tax balance presented above it is expected that HUF 6,222 million (in 2015 HUF 8,102 million) of the liabilities and HUF 374 million (in 2015 HUF 1,438 million) of the assets will reverse after 12 months.

At 31 December 2016 Richter Group has HUF 8,310 million unused tax loss (that would result in HUF 1,330 million deferred tax asset) for which no deferred tax asset has been recognised since the recovery is not probable, while in 2015 the Group had HUF 15,625 million unused tax loss (that would have resulted in HUF 2,500 million deferred tax asset). In 2016 most of the unused tax loss is connected to the Romanian subsidiaries for which no deferred tax asset has been recognised.
Temporary differences arising in connection with interest in associates and joint ventures are insignificant.

17. Loans receivable

	31 December 2016 HUFm	31 December 2015 HUFm
Loans given to related parties	3,207	1,119
Loans given to employees	707	543
Other loans given	885	2,021
Total	**4,799**	**3,683**

18. Goodwill

	Goodwill HUFm
Cost	
At 1 January 2015	**61,086**
Measurement period adjustment	(527)
Decrease deriving from sale of subsidiaries	(87)
Exchange differences	4,565
Impairment charged for the year	(149)
At 31 December 2015	**64,888**
At 1 January 2016	64,888
Increase deriving from acquisition of subsidiaries (Note 36)	7,226
Exchange differences	(1,731)
Impairment charged for the year	(1,751)
At 31 December 2016	**68,632**

The above mentioned impairment was charged in amount of HUF 1,720 million in Pharmaceuticals segment and HUF 31 million in Wholesale and retail segment.

Closing goodwill on Cash Gencrating Units (Companies)

	31 December 2016 HUFm	31 December 2015 HUFm
Pharmaceuticals segment		
GR Polska Sp. z o.o.	1,051	1,099
Richter-Helm BioLogics Co & KG	99	100
PregLem S.A.	34,563	34,559
GRMed Company Ltd.	23,142	24,161
GR Brasil	75	60
GR Mexico	1,799	2,092
Mediplus Group	-	1,679
Gedeon Richter Rxmidas Joint Venture Co. Ltd.	6,807	-
Wholesale and retail segment		
Armedica Trading Group	1,035	1,077
Other segment		
Pesti Sas Holding Kft.	61	61
Total	**68,632**	**64,888**

Impairment test of the goodwill is based on the following assumptions:

Gedeon Richter Polska Sp. z o.o.
Gedeon Richter Polska Sp. z o.o. achieved significant profit in 2016, and according to its midterm financial plans further growth is expected of the company. As a result of this no impairment was required at the end of financial year of 2016 similar to 2015. Any reasonable change in the key assumptions is still not expected to result in an impairment of Goodwill.

Armedica Trading Group
The Group has allocated the goodwill to individual pharmacies and performs the impairment review on group of cash generating units (CGU) level. Two groups of CGUs have been set up and the pharmacies were categorized into these groups based on their current EBITDA performance.
Each year the performance of the pharmacies is assessed whether they are grouped into the correct category of pharmacies. Classification criterion has been defined as -3.5% EBITDA/sales level. The Group determined this level by analyses. The pharmacies that exceeded the above mentioned EBITDA/sales ratio achieved in total an EBIDTA amount close to break even and the Group expects that the performance of this pharmacies will improve.

Similarly to previous years we have assessed the recoverable amount with fair value less cost to sell method considering the economic environment, which changed significantly in comparison to the prior year. The compensation of reimbursed products accelerated further in 2016 increasing the liquidity and cash generating ability of pharmacies. In the fair value less cost to sell model we have made estimation on future performance based on historical data and realistic market assumptions on mid and long term timeframe. The Group performed the present value calculation using estimation of 14 years cash flows which is in line with the remaining estimated useful life of the licenses.

In case of the underperforming group where the recoverable amount of the group is less than its carrying amount the Group has recorded impairment on the entire goodwill balance (HUF 31 million), and impairment was required on the related pharmacy licenses as disclosed in Note 12. No impairment was required on the good performance group of pharmacy licenses.

We also performed sensitivity test on the good performing pharmacies including the following parameters: Volume of sales, Weighted Average Cost of Capital (WACC) and mark-up. By changing ceteris paribus these factors: 5% decline in sales price would require full impairment for goodwill and partial pharmacy licenses. 5% decrease of the mark-up similarly to 5% increase of WACC would not require additional impairment neither for goodwill nor for the related licenses.

PregLem S.A.
PregLem was acquired on 6 October 2010. This acquisition supports and provides a gynaecological portfolio and development of the Group's presence in Western Europe. On the acquisition the intangible asset ESMYA (Note 12) and goodwill were also recognized.
At the date of the acquisition ESMYA®, a novel treatment for uterine fibroids, was close to the registration. In February 2012 the European Commission (EC) has granted marketing authorization to ESMYA® as pre-operative treatment of uterine fibroids what was followed by the authorizations for the extended (use up to two courses - 2014) and intermittent use (2015).

Similarly to the previous year, Richter conducted an impairment test of PregLem for the 2016 balance sheet date and found that again there is no need to account for impairment. Considering that the future cash flows from continued use of the acquired assets are considerable, the return has been determined for a cash generating unit including the ESMYA intangibles, PregLem goodwill and other tangible assets used to generate cash inflows (ESMYA CGU).

The return on the ESMYA CGU is determined by means of the income-based method with a fair value less cost to sell approach. The calculations are based on the approved budgets and management projections, the underlying cash flows of which are expected to reflect market participant assumptions as well.

Cash flows have been projected over the estimated useful life of the asset. Future cash flows are basically affected by changes in turnover, which has three main phases: ramp-up, staying at level, and decline once generic competition starts.

Key facts and assumptions around the management estimation on the future performance of ESMYA (CGU) are unchanged:

EU ESMYA® sales: Generic competition is not expected before 2025 in the European Union due to the data and marketing exclusivity granted by authorities effective till 2022 and also the Company's patent portfolio (both granted patent and pending patent applications) protecting ESMYA®. Main assumptions haven't changed compared to 2015.

The product has been authorized for the long term treatment of uterine fibroids, which increases the overall sales potential and extends the time horizon for the product to reach this potential.

The majority (76%) of the recoverable amount is generated by the EU cash flows: sales revenue is expected to peak in 2019 and maintain that level until 2024. Cash flow peaks in 2024 as a result of declining cost of sales (expiration of license fee obligation). Sales are expected to decline over 5 years starting with 2025 – the first year of generic competition - (CAGR -15%) and to remain stable after that till the end of the forecast period.

USA ESMYA® sales: In the United States, the combined effects of the delayed launch (2018) compared to EU markets and the Company's patent portfolio will not make it likely that effective generic competition could start before 2030. Main assumptions were the same in 2015.

The discount rate (post tax: 7.3%; in 2015 9.2%) applied reflects current market assessments of the time value of money and the risks specific to the CGU for which future cash flow estimates have not been adjusted.

The present value of cash flows up to 2024 represents the 59% of total recoverable amount.

The recoverable amount of ESMYA CGU exceeded carrying value of the sum of ESMYA intangible asset, other tangible assets used to generate cash inflows and the related GW. A rise in post-tax discount rate to 14.5 % (in 2015: 10.8%) would remove the remaining headroom.

GRMed Company Ltd.

GRMed Company Ltd. was acquired in 2013. The transaction supported the Group's stronger presence in China through acquiring an indirect holding in the Chinese trading company RxMidas.

The goodwill impairment was tested as of the balance sheet date of 31 December 2016 and 2015 it was found that there is no need to account for impairment in 2016 similar to the previous year.

Considering that the future cash flows from continued use of the assets are considerable, the return has been determined for a cash generating unit (CGU) by means of the income-based method with a fair value less cost to sell approach. The calculations were based on the long term turnover projection and costing plan adopted by the management, the underlying cash flows of which are expected to reflect market participant assumptions as well.
The present value of cash flows beyond this was determined by means of the terminal value formula.

A steady increase in cash flows is envisioned for the projection period (2017-2026) due to the average annual 11.3% (10.8% in 2015) growth in turnover.

The present value of the 2017-2026 cash flows alone is substantially (approximately 1.5 times; in 2015 0.5 times) higher the CGU's book value. By a conservative estimate of residual value (calculating with 0% growth), the return is 5.0 times (2.9 times in 2015) the tested amount.

The discount rate (post tax: 10.1%; in 2015 11.0%) applied reflects current market assessments of the time value of money and the risks specific to the CGU for which future cash flow estimates have not been adjusted.

Any reasonable change in the key assumptions is still not expected to result in an impairment of Goodwill.

Mediplus Group
Registered in Curacao, Mediplus Group in various Latin American countries was acquired and involved in the consolidation in 2014. The transaction was part of the series of recent acquisitions aimed at expanding the Group's activity in the LatAm region and serving as a springboard for future growth.

The goodwill impairment was tested as of the balance sheet date of 31 December 2016 and it was found that there is need to account for impairment the total amount of goodwill (HUF 1,720 million).

The recoverable amount of this group of cash generating units (CGUs) was determined by an income based fair value less cost to sell calculation. The calculations were based on the long term turnover projection (2017-2026) based on the data of Mediplus Group (Mediplus (Economic Zone) N.V., Comercial Gedeon Richter (Chile) Ltda., Gedeon Richter Peru S.A.C., GEDEONRICHTER Ecuador S.A., Gedeon Richter Bolivia SRL) adopted by the management, the underlying cash flows of which are expected to reflect market participant assumptions on the respective markets as well.
Cash flows measured are mostly related to the Company's traditional portfolio therefore these cash flow projections do not include the sales of ESMYA® in the region, because goodwill was allocated to CGU not included ESMYA® sales.

Based on its two-year market experience the Group reconsidered the market position of the products and concluded that sales targets set earlier could not be achieved to that extent. Since the recoverable amount that could be counted on the basis of realistic cash flows was below even the carrying value of other CGU assets, an impairment against the total amount of Goodwill was needed.

The discount rate (post tax: 11.5%; in 2015 12.9%) applied reflects current market assessments of the time value of money and the risks specific to the CGU for which future cash flow estimates have not been adjusted.

There were no reasonably possible changes seen in any of the key assumptions that would have resulted in a fact other than in an impairment against the Goodwill. Even a 30% rise in turnover would not have led to different result. Assets other than Goodwill were not affected by impairment: the Company has examined those assets and found evidence that it would be able to recover asset's carrying amount through using or by selling them.

Gedeon Richter Mexico, S.A.P.I. de C.V.
DNA Pharmaceuticals S.A. of Mexico was acquired and involved in consolidation in 2014. The realised goodwill was tested for impairment as of 31 December 2016.

Similarly to other goodwill impairment tests, the return has been determined for a cash generating unit (CGU) by means of the income-based method with a fair value less cost to sell approach. The calculations were based on the long term turnover projection adopted by the management (2017-2026), the underlying cash flows of which are expected to reflect market participant assumptions on the respective markets as well. The present value of cash flows beyond this was determined by means of the terminal value formula.

Cash flows decline until 2019 as operating expenses get financed increasingly by the traditional portfolio which does not include ESMYA®. The launch of new oral contraceptive products is expected to boost the sales up to 2025 (CAGR 2019-2025: 9.2%), when it stabilises. Residual value was calculated in line with these expectations.

The discount rate (post tax: 7.9%; in 2015 9.6%) applied reflects current market assessments of the time value of money and the risks specific to the CGU for which future cash flow estimates have not been adjusted.

The present value of the 2017-2026 cash flows represents the 39% of total recoverable amount.

The calculated return is close to the CGU's book value exceeds that by 2% (in 2015 about 76%) so relatively small change in key assumptions (e.g. a rise in post-tax discount rate to 8.0% (in 2015 17.1%) or -0.2% difference in CAGR 2019-2026) would remove the remaining headroom. A -2.5% difference in CAGR 2019-2026 would result in an impairment of HUF 898 million.

Gedeon Richter Rxmidas Joint Venture Co. Ltd.
In December 2010 Richter announced the foundation of Gedeon Richter Rxmidas Joint Venture Co. Ltd. with an initial equity share of 50%. On 22 January 2016 it was announced that Richter acquired from its partner, Rxmidas Pharmaceuticals Holdings Ltd. its outstanding 50% stake in the joint venture company. Consequently, with its 100% holding Richter will be in full charge of its contraceptive and OTC business in China.

Parties performed income-based valuation to determine the contract value of the 50% of the share capital. The calculations (discounted cash flow model) were based on a long term (10 year) turnover projection and costing plan adopted by the Parties. Cash flows measured relate to the sale of the Company's traditional products in the Chinese market. Sales are expected to growth throughout the entire forecasting period (2016-2025) in a slower pace at a CAGR 15.5%. The same indicator in case of the cash flows even higher (34.6%) because the operating expenditures growth at a smaller rate (10.8%) than sales.

The discount rate applied was 12%. The assumptions in the model are still considered to be realistic by the management, the performance in 2016 slightly exceeded the expectations, therefore there is no need for impairment on this goodwill balance as of 31 December 2016.

19. Inventories

	31 December 2016 HUFm	31 December 2015 HUFm Restated*	1 January 2015 HUFm Restated*
Raw materials, packaging and consumables	40,031	27,682	27,254
Production in progress	1,756	1,592	1,298
Semi-finished and finished goods	39,459	35,406	33,358
Total	**81,246**	**64,680**	**61,910**

* See Note 39 for details regarding the restatement.

Inventories include impairment and scrapping in value of HUF 3,842 million and reversal of impairment in value of HUF 513 million in 2016 (HUF 1,889 million impairment and scrapping and HUF 351 million reversal was made in 2015).
The main reasons for impairment and scrapping are the obsolescence of the inventory and the unfavourable changes of the market conditions of the particular product. The reversal of impairment is due to the change of market conditions.
In respect of Lisvy® inventories the product withdrawal resulted an impairment loss in amount of HUF 849 million which Richter expects to receive as compensation as notified by Bayer. Further compensation claims that are under negotiation between the Parties have not yet been recognized as receivable and as other income.
As of 31 December 2016 the total carrying amount of inventories that are valued at net realisable value amounts to HUF 8,121 million (in 2015 it was HUF 2,168 million).
All items of Inventories are free from liens and charges.

20. Trade receivables

	31 December 2016 HUFm	31 December 2015 HUFm
Trade receivables	114,418	90,215
Amounts due from related companies (Note 38)	1,805	2,324
Total	**116,223**	**92,539**

Ageing of Trade receivables

	31 December 2016 HUFm	31 December 2015 HUFm
Trade receivables not yet due	104,192	83,752
Trade receivables overdue, not impaired	8,963	7,591
1-90 days	*6,078*	*6,237*
91-180 days	*1,359*	*939*
181-360 days	*1,255*	*308*
>360 days	*271*	*107*
Trade receivables overdue, impaired	10,284	8,423
1-90 days	*1,226*	*1,145*
91-180 days	*1,029*	*1,660*
181-360 days	*2,053*	*424*
>360 days	*5,976*	*5,194*
Impairment on trade receivables	(7,216)	(7,227)
1-90 days	*(247)*	*(407)*
91-180 days	*(414)*	*(1,532)*
181-360 days	*(803)*	*(383)*
>360 days	*(5,752)*	*(4,905)*
Total	**116,223**	**92,539**

Movements on the Group provision for impairment of trade receivables are as follows:

	31 December 2016 HUFm	31 December 2015 HUFm
At 1 January	**7,227**	**7,410**
Provision for receivables impairment	1,716	2,022
Reversal of impairment for trade receivables	(1,798)	(1,755)
Exchange difference	71	(450)
At 31 December	**7,216**	**7,227**

The reversal of impairment is explained with the financial settlement of overdue receivables.

Both in 2016 and in 2015 it was required to account for impairment on one individually significant customer covering its entire balance.

21. Other current assets

	31 December 2016 HUFm	31 December 2015 HUFm
Loans receivable	1,776	2,893
Other receivables	3,524	2,336
Fair value of open forward exchange contracts	-	4
Subtotal of financial assets (Note 10)	**5,300**	**5,233**
Tax and duties recoverable	4,463	3,982
Advances	2,264	1,842
Prepayments	2,964	2,870
Total	**14,991**	**13,927**

22. Investments in securities

	31 December 2016 HUFm	31 December 2015 HUFm
Government bonds (HTM)*	-	1,524
Money market funds (AFS)	1	2,428
Other securities (AFS)	750	18
Total (Note 10)	**751**	**3,970**

*Treasury bills and government securities are issued or granted by the Hungarian State.

The value of Government bonds decreased since they matured in 2016, most of the money market funds were sold.

23. Cash and cash equivalents

	31 December 2016 HUFm	31 December 2015 HUFm
Bank deposits	95,926	132,262
Cash on hand	127	112
Total	**96,053**	**132,374**

The total amount of Cash and cash equivalents at the balance sheet date was mainly (more than 65%) held by the Parent Company out of which major part is short term bank deposit and minor part is on demand deposit. It is denominated in EUR, USD, HUF and other currencies.

24. Share capital and reserves

Share capital	31 December 2016 Number	31 December 2016 HUFm	31 December 2015 Number	31 December 2015 HUFm
Ordinary shares of HUF 100 each	186,374,860	18,638	186,374,860	18,638

Detailed ownership structure of the Parent

Ownership	Ordinary shares number		Voting rights** %		Share capital %	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Domestic ownership	**59,832,738**	**58,409,460**	**32.15**	**31.48**	**32.11**	**31.34**
State ownership total	47,051,817	47,051,817	25.28	25.36	25.25	25.25
out of which MNV Zrt.	47,051,668	47,051,668	25.28	25.36	25.25	25.25
out of which Municipality	149	149	0.00	0.00	0.00	0.00
Institutional investors	6,070,053	5,498,517	3.26	2.96	3.26	2.95
Retail investors	6,710,868	5,859,126	3.61	3.16	3.60	3.14
International ownership	**126,289,476**	**126,745,169**	**67.84**	**68.30**	**67.75**	**68.00**
Retail investors	1,697,648	2,451,470	0.91	1.32	0.91	1.32
Institutional investors	124,591,828	124,293,699	66.93	66.98	66.84	66.68
out of which Aberdeen Asset Mgmt. Plc.	18,243,530	18,243,530	9.80	9.83	9.79	9.79
out of which Harding Loevner LP	9,367,925	-	5.03	-	5.03	-
Undisclosed ownership	**11,012**	**408,576**	**0.01**	**0.22**	**0.01**	**0.22**
Treasury shares*	**241,634**	**811,655**	**0.00**	**0.00**	**0.13**	**0.44**
Share capital	**186,374,860**	**186,374,860**	**100.00**	**100.00**	**100.00**	**100.00**

* The treasury shares have no voting rights.
** Article 13.8 of the Statutes restricts the voting rights of shareholders, alone or together with other related persons to no more than 25%.

Data in the above table were compiled based on the share registry amended with information provided by KELER Zrt. as clearing company, global custodians and nominees.

The Group does not have any (ultimate) controlling party. The Hungarian State is having significant influence through the ownership of MNV Zrt.

Foreign currency translation reserves

Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

Revaluation reserve for available for sale investments

When measuring financial assets available for sale (Note 15, 22) at their fair values the difference shall be recognized as Revaluation reserve for available for sale investments. It shall be recycled to the income statement at the time of disposal or impairment.

	Revaluation reserve for available for sale investments HUFm
At 1 January 2015	**1,876**
Recycled through Other comprehensive income	(2)
Revaluation gross	1,815
Deferred tax effect	(366)
At 31 December 2015	**3,323**
Recycled through Other comprehensive income	(65)
Revaluation gross	5,904
Deferred tax effect	(337)
At 31 December 2016	**8,825**

From January 1st, 2017 9% statutory tax rate is applicable for the Parent Company, who has the most available for sale investments in the Group. The effect of tax rate reduction is included in the current deferred tax change in line with the modification of the tax rate.

Equity-settled share based payment presented within retained earnings

Equity-settled employee benefits reserve is presented within Retained earnings, therefore the current year's effect is shown in the Consolidated Statement of Changes in Equity.
The reserve contains equity-settled share-based payments to employees measured at the fair value of the equity instruments at the grant date. Please see more detailed in Note 25 Treasury shares.

	2016 HUFm	2015 HUFm
Expense recognized in current year	4,724	4,260
Treasury share given (Note 25)	3,679	4,217
Total changes in reserve presented in the Consolidated Statement of Changes in Equity	**1,045**	**43**

25. Treasury shares

It is the intention of the Company to grant Treasury shares to management and employees as part of its remuneration policy. The Company is operating three share based payment programs, described below in more details. From these programs, the individual bonuses and the bonus program vest immediately, while the shares granted under the Staff Stock Bonus Plan have a vesting condition of employment at the end of the deposit period also described below.

Bonus program
Richter operates a bonus share programme since 1996 to further incentivise managers and key employees of the Company. In 2016 217,189 shares were granted to 440 employees of the Company while in 2015 327,378 shares were granted to 454 employees.

Individual bonuses
387,600 treasury shares were granted to qualified employees as bonuses during the year while 422,917 treasury shares were granted in 2015.

Staff Stock Bonus Plan
Pursuant to a programme approved by the National Tax and Customs Administration related to employee share bonuses (Staff Stock Bonus Plan 2016), the Company granted 285,459 treasury shares to 4,342 employees in 2016. The shares will be deposited on the employees' security accounts with UniCredit Bank Hungary Ltd. until 2 January 2019. In 2015 350,694 shares were granted to 4,356 employees deposited on their accounts until 2 January 2018.

The AGM held on 26 April 2016 approved that the Company may purchase its own shares for the treasury, the aggregated nominal value of which shall not exceed 10 percent of the registered capital of the Company. Based on this approval, the Company purchased 302,831 treasury shares on the OTC market during the year.

Treasury shares	**2016** Numbers	**2015** Numbers
at 1 January	**811,655**	**1,365,687**
Out of these, number of shares owned by subsidiaries	*710,284*	*1,361,988*
Share purchase	302,831	525,304
Transferred as part of bonus program	(217,189)	(327,378)
Individual bonuses	(387,600)	(422,917)
Granted pursuant to the National Tax and Customs Administration - approved plan	(285,459)	(350,694)
Granted pursuant to the National Tax and Customs Administration - repurchased	17,396	21,653
at 31 December	**241,634**	**811,655**
Out of these, number of shares owned by subsidiaries	*60,284*	*710,284*

	2016 HUFm	**2015** HUFm
Book value		
at 1 January	**3,206**	**4,881**
Share purchase	1,758	2,542
Transferred as part of bonus program	(983)	(1,024)
Individual bonuses	(1,571)	(1,736)
Granted pursuant to the National Tax and Customs Administration - approved plan	(1,222)	(1,548)
Granted pursuant to the National Tax and Customs Administration - repurchased	97	91
at 31 December	**1,285**	**3,206**

26. Trade payables

	31 December 2016 HUFm	31 December 2015 HUFm
Trade payables	45,738	38,204
Amount due to related companies (Note 38)	188	5
Total	**45,926**	**38,209**

27. Other payables and accruals

	31 December 2016 HUFm	31 December 2015 HUFm
Short term accruals	13,389	9,219
Other liabilities	3,717	2,211
Contingent-deferred purchase price liabilities	8,446	6,370
Dividend payable	147	152
Subtotal of financial liabilities (Note 10)	**25,699**	**17,952**
Wages and payroll taxes payable	5,678	4,834
Other taxes	1,056	771
Deposits from customers	190	669
Accrual for taxes and social contributions of share options and other bonuses	306	443
Total	**32,929**	**24,669**

27.1 Contingent-deferred purchase price

The Group has performed several acquisitions with contingent-deferred purchase prices since 2010. These purchase prices are measured at fair value (probability weighted discounted amount) and the uncertainties related to them are presented in Note 3.1.
The liabilities presented in the financial statements related to these purchase prices (presented as other items in this note and in Note 30) are as follows.

	31 December 2016 HUFm	31 December 2015 HUFm
Non-current liabilities		
GRMed	-	5,307
GR Mexico	-	387
	-	**5,694**
Current liabilities		
GRMed	7,565	5,947
GR Mexico	881	423
	8,446	**6,370**
Total	**8,446**	**12,064**

Change in the fair value of the above purchase prices are presented in Note 11.

28. Provisions

	31 December 2016 HUFm	31 December 2015 HUFm
Other short term provisions	1,926	1,907
Long term provisions – for retirement and other long term benefits*	3,508	2,928
from this defined retirement benefit plans at the Parent	*1,525*	*1,394*
from this defined retirement benefit plans at GR Polska	*289*	*300*
from this defined retirement benefit plans at PregLem	*263*	*60*
from this defined retirement benefit plans at Finox Group	*365*	-
Total	**5,434**	**4,835**

* The balance not described in more details below contains jubilee and similar long term benefits.

At 31 December 2016, Other short term provisions include provisions created for individual bonuses, and penalties.

From the defined benefit plans of the Group, it is considered that only the pension plan operated by the Parent Company is significant, therefore further disclosures are provided only related to that. Since the plan is operated in Hungary the benefits and the disclosures below are determined in Hungarian Forint.

Defined retirement benefit plans at the Parent

Actuarial valuation related to retirement benefit plans

According to the Union Agreement of Gedeon Richter Plc. the retiring employees are entitled to the following additional benefit in case the employment contract ends with mutual agreement or regular dismissal:

- 1 month absentee fee in case of min. 15 years consecutive employment
- 2 month absentee fee in case of min. 30 years consecutive employment
- 3 month absentee fee in case of min. 40 years consecutive employment
- 4 month absentee fee in case of min. 45 years consecutive employment

If the employee meets the conditions mentioned above, and has for at least 20 years of continuous employment at Richter is entitled to additional benefit - 45 days of absentee fee.

The valuation method

In line with IAS 19, defined benefit obligation was calculated by using Projected Unit Credit Method. The estimated amount of the benefit shall be accounted in equal amounts for each period until the maturity date (straight line method), and valued at present value by using actuarial discount rate.

Any reasonable change in the key assumptions are not expected to result in a significant change in the value of provision therefore a detailed sensitivity analysis is not required for the variables of the valuation model.

The calculation is applied for all employees employed at the balance sheet date.

	2016 HUFm	2015 HUFm
Opening value of retirement benefit	1,394	1,285
Interest costs (charged to the P&L)	45	43
Current service costs (charged to the P&L)	114	106
Settlement	(145)	(63)
Actuarial loss/(gain) (charged to the OCI)	117	23
Retirement benefit	**1,525**	**1,394**

The principal actuarial assumptions were as follows:

The estimation was performed with a 2.0% annual increase in the wages.

Discount rate

The discount calculation is made "on the basis of available high quality corporate bonds or, in the absence thereof, of government securities in the given market."
When estimating the level of interest we apply the yields of long term government securities established by EUROSTAT on a country by country basis for the reported year and published at the date closest to the assessment.
In the present case the yield published in December 2016 was used to determine the discount rate for the calculation of liabilities. In this calculation the year end interest rate (3.31%) was applied.

Distribution of probability of resigning in terms of the age of employees and the duration of their employment

Relying on factual data the probability of resigning was estimated on the basis of annual average probability of resigning in groups set up by duration of employment as shown in the following table. At the same time to reckon with future uncertainty a risk factor increasing in time is taken into account.

Term of employment at Richter	Annual average probability of resigning	Uncertainty factor related to the probability of resigning
Relevant data applied during the actuarial calculation:		
between 1-5 years	7.0%	5.0%
between 6-15 years	3.0%	10.0%
between16-30 years	2.0%	20.0%
over 30 years	1.5%	30.0%

29. Borrowings

The credits are not secured by registered mortgages on real estates and inventories.

	31 December 2016 HUFm	31 December 2015 HUFm
Long-term borrowings	28,874	37,188
Short-term borrowings	7,776	6,523
Total	**36,650**	**43,711**

In June 2011 Gedeon Richter Plc. and the European Investment Bank (EIB) signed a EUR 150 million credit line contract with a 9 year term comprising an initial 3 year period of grace followed by a 6 year repayment period. This agreement has as its aim the financing during the period of 2011-2014 of Richter's original research activities targeting compounds, which are active in diseases of the Central Nervous System, combined with the development of bio similar products. Total credit line has been drawn down until 31 December 2013. The outstanding balance of this borrowing as of 31 December 2015 was EUR 137.5 million (HUF 43,054 million), while as of 31 December 2016 EUR 116.7 million (HUF 36,286 million) after the repayment of EUR 21.0 million (HUF 6,494 million).

30. Other non-current liabilities and accruals

	31 December 2016 HUFm	31 December 2015 HUFm
Government grants	3,573	1,149
Other non-current liabilities	875	974
Contingent-deferred purchase price liabilities	-	5,694
Total	**4,448**	**7,817**

The contingent-deferred purchase prices described in more detailed in Note 3.1, Note 11 and Note 27.
Government grants relates to property, plant and equipment.

31. Dividend on ordinary shares

	2016 HUFm	2015 HUFm
Dividend on ordinary shares	13,419	6,150

A dividend of HUF 72 per share (HUF 13,419 million) was declared in respect of the 2015 results, approved at the Company's Annual General Meeting on 26 April 2016 and paid during the year.

32. Agreed capital commitments and expenses related to investments

Data are presented for the Parent Company and the Russian subsidiary since they have the most significant capital expenditure in the Group.

	31 December 2016 HUFm	31 December 2015 HUFm
Contractual capital commitments of Parent	4,185	5,959
Contractual capital commitments of AO Gedeon Richter -RUS	82	37
Capital expenditure that has been authorised by the directors but has not yet been contracted for at Parent	35,840	21,879
Capital expenditure that has been authorised by the directors but has not yet been contracted for at AO Gedeon Richter-RUS	4,162	1,192

The capital expenditure programme of the Parent Company approved by the Board of Directors totalling HUF 40,025 million comprises all costs associated with capital expenditure planned for 2017. The above commitments were not recorded either in the Income Statement or in the Balance Sheet.

33. Operating lease – Group as lessee

Operating lease commitments of the Group (based on the contracts effective as of the year end) are mainly related to car and building rental. The non-cancellable operating lease commitments are as a follows:

	2016 HUFm	2015 HUFm
Within 1 year	3,798	4,733
Between 1 and 5 years	9,604	10,065
Over 5 years	4,409	2,634
Total	**17,811**	**17,432**

The agreements do not include purchase option.
In 2016 HUF 6,002 million and in 2015 HUF 6,549 million has been recorded as operating lease expense.

34. Guarantees provided by the Group

The Group has not provided directly any guarantees to third parties. Guarantees provided by banks on behalf of the Group are presented in Note 10.

35. Social security and pension schemes

The Group has provided in relation to the employees in Hungary social contribution tax amounting to 27% and vocational training contribution amounting to 1.5% of gross salaries which are paid during 2016 to the National Tax and Customs Administration by the Group. The Group has no further obligations beyond the statutory rates in force during the year. In relation to employees employed in abroad, the social insurance contributions have been paid in accordance with the laws of each country.

The Parent Company contributes 6% of the monthly gross wages (maximum 50% of the current minimum wage) for those employees who decided to participate in the voluntary pension fund. In addition, one-off contribution is made in respect of employees who are reaching the age limit of 55, 57, 59, 61, 63, 65 years in the amount of HUF 50,000 within five years of the statutory retirement age. The total cost of the contributions made by the Parent Company was HUF 1,218 million in 2016 (in 2015: HUF 1,106 million).

The Parent Company has contributed to a private health insurance fund for the benefit of its employees since 1 September 2003. Amounts paid increased to HUF 5,500/person/month since 1 March 2016 (in 2015 it was 4,000/person/month). The total amount paid for employees was HUF 313 million during 2016 (in 2015 it was HUF 242 million).

Pension contribution paid by Hungary based subsidiaries in respect of their employees amounted to HUF 31 million in 2016 and HUF 31 million in 2015.

Foreign subsidiaries pay contributions to various pension funds in respect of their employees which amounted to HUF 461 million and HUF 306 million in 2016 and 2015, respectively.

The pension contribution paid by the Company and described above are Defined Contribution Plan.

None of the subsidiaries of the Group operate any similar pension schemes, but all Hungary based subsidiaries pay a contribution to the voluntary pension fund and the Patika Voluntary Health Insurance Fund.

36. Business Combination

Business Combination in 2016

Gedeon Richter Rxmidas Joint Venture Co. Ltd.

In December 2010 Richter announced the foundation of Gedeon Richter Rxmidas Joint Venture Co. Ltd. with an initial equity share of 50%. On 22 January 2016 it was announced that Richter acquired from its partner, Rxmidas Pharmaceuticals Holdings Ltd. its outstanding 50% stake in the joint venture company. Consequently, with its 100% holding Richter will be in full charge of its contraceptive and OTC business in China.

	Carrying value HUFm	Fair value HUFm
Total consideration paid in cash	**4,870**	**4,870**
Fair value of GRRX previously held interest	-	4,383
Total consideration	**4,870**	**9,253**
Trade receivables	639	639
Other current assets	5	5
Cash and cash equivalents	1,572	1,572
Other payables	(189)	(189)
Fair value of net asset acquired	**2,027**	**2,027**
Goodwill	**-**	**7,226**

Total consideration paid in cash was EUR 15.6 million. There was no arrangement for contingent consideration.

In connection with the 100% acquisition of the joint venture Gedeon Richter Rxmidas JV Co. Ltd. the 50% stake held prior to the transaction was reassessed at fair value at the time of the acquisition (22 January 2016) in line with the accounting standards for business combinations as established by IFRS 3.

From the acquisition above HUF 4,870 million is expected to be deductible for tax purposes by the Parent Company, since the previously held interest is not remeasured in the tax accounts.

The goodwill recognised on the acquisition of Gedeon Richter Rxmidas Joint Venture Co. Ltd. arose from the utilisation of the distribution and marketing capabilities of the company, which will effectively promote launching and sales of the selected Richter products in the respective markets (Note 18).

Acquisition-related costs (mainly legal advice) of approximately HUF 1.4 million is charged to Administrative and general expenses in the Consolidated Income Statement for the year 2016.

Gedeon Richter Rxmidas Joint Venture Co. Ltd. contributed to the Profit for the year of the Group HUF 379 million gain and to the Net sales of the Group by HUF 2,155 million in 2016. The total profit and net sales of the company was taken into consideration since the acquisition was in January 2016.

Finox Holding AG - FINOX Group

The Parent Company announced by the means of extraordinary announcements both the acquisition of Finox Holding (30 June 2016) for an amount of CHF 197 million and the closing of the transaction (8 July 2016). Total consideration paid in cash contains the value of the ownership and a long term loan given by previous owner. The above mentioned total amount was presented in the Consolidated Cash Flow Statement as Net cash outflow on acquisition of subsidiaries.

Finox Holding is a privately held Swiss biotech company focused on development and commercialisation of innovative and cost effective products addressing female fertility.
Finox product, BEMFOLA® is a recombinant-human Follicle Stimulating Hormone (r-hFSH) which was developed as a first biosimilar to Gonal-f® an established reference product. Richter has obtained global rights for BEMFOLA® for which marketing authorization was already granted in EU in May 2014 and is currently sold in more than 20 countries.

At the closing of the transaction the company assumed control and commenced the integration of the companies belonging to Finox Holding into Richter Group.

	Carrying value HUFm	Fair value HUFm
Total consideration paid in cash	**26,011**	**-**
Property, plant and equipment	463	463
Investments	3	3
Deferred tax assets	1,693	1,693
Loans receivable	1	1
Inventories	8,216	5,969
Trade receivables	1,799	1,799
Other current assets	1,121	1,121
Cash and cash equivalents	3,266	3,266
Borrowings (long term)	(31,138)	(31,138)
Other non-current liabilities	(708)	(708)
Long provision	(639)	(639)
Borrowings (short term)	(1)	(1)
Other payables and accruals	(2,302)	(2,302)
Other intangible asset - BEMFOLA	-	50,916
Other intangible asset – CR value	-	1,597
Deferred tax liability	-	(5,761)
Fair value of net asset acquired	**(18,226)**	**26,279**
Bargain purchase gain	**-**	**(268)**

The Company revised the key assumptions which were used in the purchase price calculation and they were stated reliable. Non material bargain purchase gain realised on the acquisition was accounted for as Other income and other expenses (net) in the Consolidated Income Statement.

Acquisition-related costs (audit fees and legal advice) of approximately HUF 160 million have been charged to Administrative and general expenses in the Consolidated Income Statement for the year ended 31 December 2016.

Finox Group contributed to the Profit for the year of the Group HUF 2,270 million loss and to the Net sales of the Group by HUF 2,695 million in 2016.

We cannot present the contribution of the Finox Group to Net sales and Profit for the year for the entire calendar year of 2016, since the Finox Group members had a different business year before the acquisition, their financial statements were made according to local GAAPs and were not consolidated.

Business Combination in 2015

The Group had no new acquisitions in 2015.

The amount of goodwill realised to the acquisition of Gedeon Richter Mexico, S.A.P.I. de C.V. was reduced by HUF 527 million in 2015. The reason of the adjustment was the identification of a new asset (long term receivable) during the measurement period.

37. Contingent liabilities

Uncertain tax position in Romania
From 1 October 2009 the Government approved a debated claw-back regime in the range of 5-12 % (aimed at financing the overspending of the national pharmaceutical budget) to be paid to the CNAS by the domestic manufacturers and wholesalers from sales of reimbursed drugs. The Group has similar taxes in other countries which are treated as other expense in the Consolidated Financial Statements. On 1 October 2011, a new version of Romania's pharmaceutical claw-back mechanism came into force levying direct liabilities for the domestic and foreign manufacturers. No provision has been recorded related to the contingent liabilities preceding January - September 2011. The uncertain tax position has not been quantified in the Financial Statements because there is an ongoing debate on the taxable person and the calculation of the tax, therefore a reliable estimate cannot be made on the exposure. Contingent liabilities for the periods before forfeited.

38. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

The State Holding Company (MNV Zrt.), as a business organisation is having a significant interest over Richter nevertheless the Parent Company has no other transactions with the State Holding Company, than the regular dividend payments.

	2016 HUFm	2015 HUFm
Dividend paid to MNV Zrt.	3,403	1,564

The Group does not perform significant transactions with other entities controlled or significantly influenced by the Hungarian State. The cumulative effect of these transactions is also not significant therefore it is not presented separately in the financial statements.

38.1 Related parties

The Group has not provided any long or short-term loans to its key management personnel. Loans given to associated companies, joint ventures are both long and short term loans.

	31 December 2016 HUFm	31 December 2015 HUFm
Loans to associated companies	3,207	3,461
Loans to joint ventures	-	58
Trade receivables (joint ventures)	234	320
Trade receivables (associates)	1,571	2,004
Trade payables (joint ventures)	142	-
Trade payables (associates)	46	5
Revenue from joint ventures	1,879	1,170
Revenue from associates	13,280	12,975

The loans are in Hungarian Forint, out of which HUF 8 million expires between 1 and 2 years, HUF 3,199 million over 5 years.
Revenues from related parties almost exclusively represents sale of pharmaceutical products. The Group has open trading commitments with related parties as of 31 December 2016 in amount of HUF 11 million.

Richter has financing obligations to Richter-Helm BioTec GmbH & Co. KG (joint ventures), which requires further capital contributions to finance the clinical and registration stage of teriparatide.

All related-party transactions were made on an arm's length basis.

38.2 Remuneration of the Board of Directors and the Supervisory Board

	Short-term benefits - Allowance	
	2016 HUFm	2015 HUFm
Board of Directors	68	70
Supervisory Board	24	24
Total	**92**	**94**

38.3 Key management compensation

	2016 HUFm	2015 HUFm
Salaries and other short term employee benefits	839	726
Share based payments	1,249	1,389
Total short term compensation	**2,088**	**2,115**
Pension contribution paid by the employer	564	571
Total	**2,652**	**2,686**

The table above contains the compensation received by the chief executive officer, directors and other senior members of management, constituting 44 people.
There were no redundancy payments to key management members neither in 2015 nor in 2016.

39. Adjustments in connection with Consolidated Financial Statements as of 31 December 2014 and 2015

With effect from 1 January 2017 stand-alone IFRS reporting also became compulsory for Gedeon Richter Plc. The Company implemented changes to the IT system supporting the transition. As part of this development the Company reviewed its methodology to eliminate intra-group profit on sale of inventories. This review discovered that previously applied average margin for elimination was not precise on purchased inventories and that intra-group profit on own manufactured inventories was not fully eliminated. As a consequence, the inventory had been incorrectly overstated and cost of sales understated. The above described IT development enabled the Group to fully eliminate intra-group profit on sale of inventory.

Additionally, the preparation of stand-alone IFRS report of Gedeon Richter Plc. has revealed that the book value of previously identified difference between the IFRS and statutory value of property, plant and equipment and its depreciation has not been reviewed annually. As a consequence, the balance of property, plant and equipment was understated and previous years' depreciation was overstated. The review resulted in correction of the value of property, plant and equipment and retained earnings.

In accordance with IAS 8 standard the corresponding figures for previous periods have been restated accordingly.

The effect – which relates entirely to the pharmaceutical segment – on the financial statement line items is presented in the following tables for the prior periods:

Consolidated Balance Sheet

	1 January 2015 HUFm As previously presented	**Change** HUFm	**1 January 2015** HUFm Restated	**31 December 2015** HUFm As previously presented	**Change** HUFm	**31 December 2015** HUFm Restated
Property, plant and equipment	169,558	2,616	172,174	175,355	2,595	177,950
Deferred tax assets	8,606	408	9,014	7,487	576	8,063
Inventories	66,452	(4,542)	61,910	70,051	(5,371)	64,680
Retained earnings	514,536	(1,278)	513,258	563,022	(1,692)	561,330
Non-controlling interest	3,172	(240)	2,932	3,645	(508)	3,137

Consolidated Income Statement

	2015 HUFm As previously presented	Change HUFm	2015 HUFm Restated
Cost of sales	(143,761)	(850)	(144,611)
Gross profit	221,459	(850)	220,609
Profit from operations	67,532	(850)	66,682
Profit before income tax	60,727	(850)	59,877
Income tax	(6,182)	168	(6,014)
Profit for the year	54,545	(682)	53,863
Profit attributable to			
Owners of the parent	54,277	(414)	53,863
Non-controlling interest	268	(268)	0

Consolidated Statement of Comprehensive Income

	2015 HUFm As previously presented	Change HUFm	2015 HUFm Restated
Profit for the year	54,545	(682)	53,863
Total comprehensive income for the year	63,200	(682)	62,518
Attributable to:			
Owners of the parent	62,818	(414)	62,404
Non-controlling interest	382	(268)	114

Earnings per share (HUF)

	2015 HUFm As previously presented	Change HUFm	2015 HUFm Restated
Basic	292	(1)	291
Diluted	292	(1)	291

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Capital reserves	Treasury shares	Revaluation reserve for available for sale investments	Foreign currency translation reserves	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Profit for the year as previously presented	-	-	-	-	-	-	54,277	54,277	268	54,545
Change	-	-	-	-	-	-	(414)	(414)	(268)	(682)
Profit for the year as restated	-	-	-	-	-	-	53,863	53,863	0	53,863
Comprehensive income for year ended 31 December 2015 as previously presented	-	-	-	-	1,447	6,778	54,593	62,818	382	63,200
Change	-	-	-	-	-	-	(414)	(414)	(268)	(682)
Comprehensive income for year ended 31 December 2015 as restated	-	-	-	-	1,447	6,778	54,179	62,404	114	62,518

Consolidated Cash Flow Statement

	2015 HUFm As previously presented	Change HUFm	2015 HUFm Restated
Operating activities			
Profit before income tax	60,727	(850)	59,877
Depreciation and amortisation	31,227	21	31,248
Movements in working capital			
Decrease/(increase) in inventories	(3,599)	829	(2,770)
Net cash flow from operating activities	**95,047**	-	**95,047**

The amounts disclosed in Note 12 Property, plant and equipment, in Note 16, Current income tax and deferred tax and in Note 19 Inventories were the most affected by the correction.

40. Notable events in 2016

The Company's main objectives for 2016 were as follows: to expand sales despite a difficult market environment; to retain and improve market shares; and to strengthen the strategy of standing on multiple legs in the market; based on the strategic principles, to shift business to enhance the contribution of high value added products; to expand the gynaecological business; to develop a new proprietary CNS product; and to take further steps in the development of biosimilar products.

On 4 January 2016 Richter announced that the European Medicines Agency (EMA) has accepted Richter's regulatory submission for the proposed biosimilar to Eli Lilly's Forteo (teriparatide). The biosimilar teriparatide has been developed by the Company's subsidiary Richter-Helm BioTec GmbH & Co. KG. According to the relevant license agreements, biosimilar teriparatide is expected to be launched under both Richter-Helm BioTec GmbH & Co. and Stada labels in Europe following the patent expiry of the original product. On 14 November 2016 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion on the product and accordingly proposes the granting of marketing authorisation for the biosimilar teriparatide Terrosa. Following on the positive opinion on 4 January 2017 the European Commission granted marketing authorisation for Terrosa.

In December 2010 Richter announced the foundation of GR Rxmidas Joint Venture Co. Ltd. with an initial equity share of 50%. On 22 January 2016 it was announced that Richter acquired from its partner, Rxmidas Pharmaceuticals Holdings Ltd. its outstanding 50% stake in the joint venture company. Consequently, with its 100% holding Richter will be in full charge of its contraceptive and OTC business in China.

On 29 March 2016 the European Medicines Agency (EMA) started assessment of the marketing authorisation of cariprazine for the indication of schizophrenia. In August of the same year Richter and Recordati signed a licence agreement granting Recordati exclusive sales license to commercialise the product in Western Europe as well as Algeria, Tunisia and Turkey.

On 17 September 2015 Richter and Allergan were pleased to announce that FDA granted Allergan marketing authorization of cariprazine for the treatment of manic or mixed episodes of bipolar I disorder and schizophrenia in adults. From the first quarter of 2016 the product will be sold in pharmacies of the Unitede States under the trade name of Vraylar™. Besides its long term positive financial impact this event has an obvious significance in terms of industrial history. The two companies released a clinical and regulatory update on the cariprazine programme in August 2016. Topline results from the MD-72 trial indicate that flexible doses of cariprazine did not separate significantly from placebo as an add-on treatment in adults with major depressive disorder (MDD) in this trial, therefore the companies will continue to work on a subsequent Phase III trial to prove efficacy.

In a joint press release in May 2016 Richter and Allergan plc announced positive results from the Venus I pivotal Phase III clinical trials that evaluated the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids.

With a view to expanding its Women's Healthcare portfolio, at the end of June 2016 Richter acquired Finox Holding, a Swiss based biotech company engaged in the development and commercialisation of innovative and cost effective products addressing female fertility. Finox Holding's product BEMFOLA® is a recombinant human follicle stimulating hormone (r-hFSH), the first biosimilar r-hFSH product to be granted marketing authorisation in Europe. Richter has obtained global rights for the commercialisation of BEMFOLA® (with the exception of the United States) thereby intending to emphasize its commitment to biosimilar products.

To bring development and manufacture of biosimilar products to new heights the Company set up an independent organisational unit named Biotechnology Business, which has been in operation since 1 July 2016.

Following the lines of the "specialty pharma" strategy developed in 2007, in 2015 Richter signed a license and distribution agreement with Bayer HealthCare to commercialize Bayer's transdermal contraceptive patch under the trade name Lisvy®. In October 2016 Richter initiated immediate withdraw after receiving Bayer's notification that the results of certain stability tests conducted with the product had not met the product specifications. The two companies are working together to identify the causes leading to the test results.

As another step towards the implementation of its biosimilar strategy, in October 2016 Richter signed an agreement on the technology transfer to manufacture trastuzumab, a monoclonal antibody developed by DM Bio of Korea, and to take over the licence of development and commercialisation. Richter will secure exclusive distribution rights for the territory of Europe, the CIS region, and Latin America.

In December 2015 it was announced that the EMA had accepted Richter's regulatory submission for its proposed biosimilar to Amgen's Neulasta (pegfilgrastim). In December 2016 the Company withdrew the application after the CHMP's notification in November that the data submitted were not sufficient for a positive evaluation of the risk/benefit analysis related to the product. Richter is committed to continue with the clinical development programme and registration of pegfilgrastim.

In 2016 Richter took further steps to expand its international business through a capital increase in its manufacturing companies and continuing its investments. Driven by the goal of adapting to the Russian economic policy of favouring local production, Richter made supporting investments into the Russian subsidiary a special priority.
Retaining and strengthening the Company's position in the Hungarian and the traditional markets (CIS, Central and Eastern Europe) despite increasingly difficult environment whose problems fall hard on the entire pharmaceutical industry (price erosion, tightening subsidies and price control) continue to feature among Richter's strategic goals.

In the context of a HUF 15 billion investment programme Richter is expanding the Debrecen biotechnology plant constructed in 2012 for the development and manufacturing of biosimilar products. A government grant has been received in the amount of HUF 5 billion. By creating new jobs the project will almost double the biotech manufacturing capacity.

41. Events after the date of the balance sheet

On 17 January 2017 Richter and Allergan plc announced positive results from Venus II, the second pivotal Phase III clinical trials. The trial investigated the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids causing irregular uterine bleeding and confirmed the result of the Venus I study published in May 2016. Application for registration of ulipristal acetate is expected to be submitted to the United States Food and Drug Administration (FDA) during the second half of 2017.

On 19 January 2017 Richter announced that it had signed an agreement with Allergan plc for the distribution of Allergan's levonorgestrel releasing Intrauterine System. Richter will distribute the product under the brand name Levosert® in Western Europe and other European countries. The product has already been granted national marketing authorisations in Western and Northern European countries, and has been launched in most countries by Allergan. Richter is currently selling Levosert® in most CEE markets in accordance with the relevant agreement signed with Uteron Pharma in 2011. According to the agreement Richter makes a milestone payment upon signature. After the product is launched, Allergan will also be entitled to sales related royalty and milestone payments.

After acquiring the remaining 9% share in February 2017 Richter became 100% shareholder of GRMed Company Limited. With this payment the Company has fully paid the deferred purchase price kept on the books among liabilities.

In February 2017 Richter and Bayer reached an agreement on reimbursement of the costs of inventories in conjunction with the withdraw of Lisvy® (Note 6).

Except for the above mentioned events, there were no events after balance sheet date that would influence the presentation of the Group financial statements.

42. Approval of financial statements

Current Consolidated Financial Statements have been approved by the Board of Directors and authorised for release at 22 March 2017.

These Consolidated Financial Statements of the Company were approved for issue by the Company's Board of Directors (the Board), however, the Annual General Meeting (AGM) of the owners, authorized to accept these financials, has the right to require amendments before acceptance. The probability of any potential change required by the AGM is extremely remote.

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GEDEON RICHER PLC.

CONFIDENTIAL

Consolidated
BUSINESS REPORT
2016

Erik Bogsch
Managing Director

Budapest, 22 March 2017

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1. General data

1.1 Brief History of Richter Group

The parent company

Gedeon Richter Plc. is a leading pharmaceutical company in the Central and East European region. Its activity encompasses every aspect of the pharmaceutical industry from research and development through the manufacturing of active substances (produced synthetically, by fermentation or extraction) and finished drugs to packaging, marketing and sales. Richter's wide product range encompasses virtually all therapeutic fields. At the same time, the therapeutic breakdown of sales shows a high degree of concentration: more than three-quarters of Richter's turnover are contributed by three major therapeutic areas.

The Company's predecessor was founded in 1901 by pharmacist Gedeon Richter, who bought a pharmacy, then turned his business into a share company two decades later, in October 1923. After World War II the Company was nationalized and while it continued operating as a share company, the sole shareholder was the Hungarian State. In June 1950, while maintaining Gedeon Richter Ltd. in terms of corporate law, the State established Richter Gyógyszer és Vegyészeti Gyár Nemzeti Vállalat (Richter National Pharmaceutical and Chemical Company), which later became known as Kőbányai Gyógyszerárugyár (Kőbánya Pharmaceutical Factory). It existed alongside Gedeon Richter Ltd. without affecting its operation.

In 1990 Kőbánya Pharmaceutical Factory merged with Gedeon Richter Ltd. as part of the transformation from a state-owned company to a share company. The merger was registered by the Budapest Court of Registration on 18 March 1991. The total registered capital of the share company amounted to HUF 13,223,974,000.

Privatization

(The number of the shares didn't restate in order to reflect the impact of the share split realized in July 2013.)

Due to the involvement of Hungarian and international investors the Company's capital was increased by HUF 4.4 billion to reach HUF 17.6 billion on 28 September 1994 and its shares were listed on the Budapest Stock Exchange. Privatization connected with the capital increase resulted in the expansion of sources of financing.
Commenced in 1994, the privatization process continued in the fourth quarter of 1995, enlarging the Company's basis of domestic and international investors.

In 1997 another 2,600,000 shares owned by the State Privatization and Holding Company (ÁPV Rt.) were offered to institutional investors in the context of a private placement, and 200,000 shares were sold to domestic private investors in the context of a public offering.
The Extraordinary General Meeting approved a HUF 1,000 million capital increase to HUF 18,637,486,000 by the issuance of 1,000,000 new shares. As a result of these transactions the State's share in Richter was reduced to 25%.

On 14 September 2004 the State Privatization and Holding Company (ÁPV Rt.) launched 4,659,373 bonds convertible to state-owned Richter shares with maturity in 2009 in the context of a private offering that involved institutional investors specialized in this type of investment. The bonds matured on 28 September 2009. The government exercised its option to redeem the bonds for cash instead of converting them to shares. At the same time, the government supported the idea that Hungarian National Asset Management Inc. (MNV Zrt.), ÁPV Rt.'s legal successor should handle financing by issuing new bonds convertible to Richter shares. As a result of the subscription that was concluded on 25 September 2009, bonds with 2014 maturity amounting to EUR 833.3 million were issued to institutional investors, convertible to 4,680,672 state-owned Richter ordinary shares. On 6 November 2013 MNV Zrt. announced its intention to repurchase the convertible bonds before their maturity in 2014 and would finance the repurchase by issuing new State-owned bonds convertible to Richter shares in the amount of EUR 903.8 million maturing in 2019. The transaction was successfully concluded on 6 December 2013. The

new bonds with maturity of 2 April 2019 were launched on the Frankfurt Stock Exchanges Open Market (Freiverkehr). By retaining its shares in Richter the Hungarian State ensures the continuation of Richter's strategy, which relies on the Company's continued independence.

Major acquisitions to promote the expansion of the Company

Through the establishment of greenfield investments from the mid-1990s the parent company has expanded its network of manufacturing bases in Russia (1996) and India (2004) and through acquisitions in Romania (1998), Poland (2002). Acquisitions were aimed at a biotechnology company in Germany (2007), and Swiss women's healthcare product development firms (2010 and 2016).

Richter's recent acquisitions, the purchase of 100% of the shares of the Swiss PregLem Group (October 2010) and the buyout of Grünenthal, a German generic pharma company's women's healthcare portfolio (November 2010) enables the Company to carve out a share of the market of innovative women's healthcare products while geographically expanding the market of Richter's traditional women's healthcare products. The two transactions gave an impetus to develop a Western European marketing network and capture a greater share of the market of women's healthcare products, relying on Richter's trading companies that have been active in the field for a long time as well as on the newly established marketing companies. The change has strategic importance for the Company.

With its seat located in Geneva, PregLem was established in 2006 for the purpose of research, development and clinical trials of proprietary products for special gynaecological indications (uterine myoma, endometriosis, infertility) that have reached the clinical stage. Of its active product lines, the leading product is Esmya with ulipristal acetate as active ingredient. According to Richter's announcement on 27 February 2012, Esmya had been granted marketing authorisation valid for all EU member states for its first indication (pre-operative treatment of uterine myoma) and was launched in most markets in the course of the year.

In 2014 in an extraordinary communication Richter announced that the European Commission had granted marketing authorization for the use of Esmya for up to two courses of preoperative treatment of uterine fibroid (extension of the first indication). In

keeping with its strategy, in June 2014 Richter signed a license and distribution agreement to commercialize ulipristal acetate in Latin America.
In April 2015 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion on Richter's request for an extension of indication, and following on this decision, the European Commission granted approval for the intermittent use of Esmya in the long term management of uterine fibroids in May 2015. The marketing authorization is applicable in all countries of the European Union.
In a joint press release in May 2016 Richter and Allergan plc announced positive results from Venus I clinical trials, then in January 2017 they announced that Venus II had confirmed the results of Venus I. Both pivotal Phase III clinical trials evaluated the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids. The two successful trials enable our licence partner Allergan plc to put together the regulatory dossier for securing marketing authorisation for the United States.

The women's healthcare portfolio acquired from Grünenthal AG contains seven brands. Their main sales areas are the major Western European countries but sales are also aimed at Central and Eastern Europe and have also been launched in the Middle East. Sales of the brands in the Russian market started in Q4 of 2012.

At the end of June 2016 Richter announced the acquisition of Finox Holding, a Swiss based biotech company engaged in the development and commercialisation of innovative and cost effective products addressing female fertility. Finox Holding's product Bemfola® is a recombinant human follicle stimulating hormone (r-hFSH), the first biosimilar r-hFSH product for which marketing authorisation was granted in Europe. Richter has obtained global rights for Bemfola® (with the exception of the United States). Consequent to this acquisition Richter added female fertility to its growing specialised Women's Healthcare business, and also managed to enhance its opportunities in the biolsimilar market.

Shares of the Company in Q1 of 2013 Richter took control of selling its traditional products and acquired a majority holding in its Chinese marketing partner. The company will be active in the promotion and marketing of prescription drugs. With this move Richter has fundamentally transformed and strengthened its presence in the Chinese market. To expand its scope of business, in January 2016, Richter bought out its partner's

50% share in the joint venture, which was founded in 2010, as a result of which the Company now has full control of distribution of oral contraceptives and the OTC line in China.

In the second half of 2013 Richter started to expand in the Central and South American region by founding a company in Colombia as a first step, followed by acquisitions in Brazil and Mexico. In May 2014 an agreement was signed for the acquisition of a majority stake in Mediplus N.V. registered in Curaçao, Mediplus is a marketing company covering Ecuador, Peru, Chile and Bolivia through its subsidiaries and also sells products to Central American and Caribbean countries. The acquisition process was concluded in October 2015 and resulted in Richter's holding 100% of the shares of Mediplus Group.

As a result of these transactions the Company has appeared directly in the world's fastest growing pharmaceutical markets (China and the Latin American region), and has taken strategic steps to increase its geographical penetration. Richter's women's healthcare portfolio is given a prominent role in every market.

Major consolidated companies and related changes in the Group

a. Pharmaceutical production segment

Pharmaceutical companies

The Group's Romanian manufacturing subsidiary, **Gedeon Richter Romania S. A.** manufactures and distributes finished products for the Romanian market and is also actively involved in Group sourcing of manufacturing, product development and marketing services.

The distribution companies in the Romanian pharmaceutical market still struggles with partners faced with prolonged liquidity problems. The term of payment improved to an average of 210-240 days as the national Insurance House reduced its payment term to 120-150 days while generic manufacturers still offer longer deadlines. Due to the government's regulations to reduce prices, mounting competition and continuously increasing allowances Gedeon Richter Romania S. A. is faced with great challenges; nevertheless, its domestic turnover increased year-on-year. Group level turnover

increased, including the Romanian wholesale and retail segment, so the company's tasks within the Group continue to be highly important.

The company's operating profit is positive due increasing sales and also to the fact that the claw-back tax was considerably lower.

In 2016 capex projects deployed by the Romanian subsidiary relied primarily on the company's strategic projects supporting Gedeon Richter Romania S.A.'s role within the Group. Capex projects to be highlighted include the expansion of the tablets plant and the development of the solutions unit besides improvement of the IT system and landscaping and building renovation works on the factory premises.

In 2016 the parent company increased the capital of its Romanian manufacturing subsidiary by RON 77,196 thousand through the conversion of its loans amounting to EUR 8,000 thousand and RON 41,000 thousand.

Gedeon Richter Romania S. A. continues to hold an indirect majority share in the wholesale and retail network.

Richter's Polish production subsidiary, **Gedeon Richter Polska Sp. z o. o.** is also responsible for Richter Group's registration, pharmacovigilance and PR activities in Poland. The subsidiary offering outsourced production and development services has grown to be a strategically highly important site for the Group. With a clear-cut organisational structure and a consolidated staff of 450 the company is increasingly efficient; its Polish marketing subsidiary is also effective in supporting the commercialization of proprietary products.

In the 2016 business year Richter's sales income exceeded expectations and was 8% above the reference year figure despite the keen competition and aggressive price war characterizing the Polish market. Total income from sales was PLN 240 million due primarily to outstandingly high Groprinosin sales.

The economic crisis in Russia continued to affect the 2016 performance of Richter's Russian manufacturing subsidiary **ZAO Gedeon Richter-RUS**. This is reflected primarily in the liquidity problems of the pharma wholesale companies featuring among the Top 10 buyers and deteriorates the company's earnings forecast. Conversely, the noticeable strengthening of the rouble in the second half contributed to the increase of the 2016 turnover denominated not only in rouble but also in euro and the company managed to meet its target sales income.

The company's main function will continue to be production and distribution supported by the parent company's marketing activity. The production portfolio continued to expand and in the next two years full-cycle manufacturing of several leading products will be started, for which preparations were progressing in great strides in 2016.
The company financed its 2016 capex through its own funds, and after conversion of trade receivables to loans at the end of the previous year it has no significant arrears in payment of the parent company's supplier invoices.

Richter Themis Ltd. continued to be active as a manufacturer and distributor of intermediate products and APIs mostly for Group members in 2016. There were only minor changes in the portfolio of products compared to the reference year; the company managed to make up for the products dropped from the portfolio by adding new APIs, thus its production capacities were fully utilized throughout the year. In addition, it also supplied a considerable amount of products to external buyers.
In addition to API production the company is also active in development. Production and development are economical, so the company enhances the cost effectiveness of the Group's API production.

In biotechnology services **Richter-Helm BioLogics GmbH & Co's** turnover in 2016 was above the previous year figure and achieved sales exceeding forecasts. The microbial biotechnology company is engaged partly in sourced development and partly in production. Intra-Group development is a significant aspect of its activity (in 2016 it produced three batches of filgrastrim) but its external relations are also expanding. The company's profitability has improved considerably over the past years and closed its business year with a substantial after-tax profit.

In 2016 **PregLem S.A.** continued to support the European commercialisation of Esmya, the women's healthcare product with ulipristal acetate as its active ingredient. In addition, R&D continues to be a key activity for the company with the development of Esmya's indications being top priority, albeit to a decreasing extent.

On 30 June 2016 Richter acquired **Finox Holding**, a Swiss based biotech company engaged in the development and commercialisation of innovative and cost effective products addressing female fertility. Their product Bemfola® is a recombinat human

follicle stimulating hormone (r-hFSH), which stimulates the ovaries in order to treat infertility. Richter has obtained global rights for the commercialisation of Bemfola® (with the exception of the United States). The product was granted marketing authorisation for the EU in May 2014 and is sold in over 20 countries.

As a result of the volatile situation and high exposure in Ukraine decision has been taken to discontinue the project related to **GRUA P.A.T.**'s production facilities so far out of operation.

Other consolidated companies providing sales and marketing services for the pharmaceutical segment:

In 2011 the scope of activities of the subsidiaries **Gedeon Richter Iberica S.A.U.** of Spain, **Gedeon Richter Italia S.R.L.** of Italy and **Gedeon Richter Pharma GmbH** of Germany was expanded by marketing. Besides marketing and PR services these companies are also engaged in so-called pre-distribution activities. In 2016 the companies continued to maintain the efficiency of the network of women's healthcare pharma representatives in Western Europe.

To promote marketing Richter established a subsidiary each in Switzerland (**Gedeon Richter (Schweiz) AG**), Portugal (**Gedeon Richter Portugal, Unipessoal Lda.**) and Austria (**Gedeon Richter Austria GmbH**). In 2012 Richter expanded in Belgium, the Netherlands and Luxemburg (**Gedeon Richter Benelux SPRL**) as well as in the Nordic countries (**Gedeon Richter Nordics AB**), and involved its already existing British and French companies (**Gedeon Richter UK Ltd.** and **Gedeon Richter France S. A R. L.**) in the network. The portfolio of the already developed network continued to expand by other women's healthcare products in 2016.

In 2016 **Gedeon Richter Marketing Polska Sp. z o. o.** efficiently promoted Richter's Polish manufacturing company against a background of increasingly aggressive price competition in the Polish market. With a stable turnover, reduced costs and significantly improved per capita performance and more efficient utilisation of its resources the company conducted successful marketing activities for both of its owners, Gedeon Richter Plc. and Gedeon Richter Polska Sp. z o. o.

After transforming its Polish agency into a subsidiary, the parent company decided to make a similar move in 2010 in the Czech Republic and Slovakia, and transformed its representative offices into **Gedeon Richter Marketing ČR s.r.o.** and **Gedeon Richter Slovakia s.r.o.** respectively. Richter also established **Gedeon Richter Slovenija, trženje, d.o.o.**, its subsidiary in Slovenia at the end of 2011. This was followed by the establishment, at the end of 2013 of a Croatian subsidiary **Gedeon Richter Croatia d.o.o.** The Czech, Slovak, Slovenian and Croatian companies support the sales of Richter products by operating efficient networks of representatives. The companies operate on a basis of invoicing costs plus margin, which ensures cost coverage and stable liquidity on a continuous basis.

In 2016 **Gedeon Richter (China) Pharmaceuticals Co. Ltd.** again delivered the expected results despite the widely varied sales performance of the promoted products. and an increasingly strong need to expand the portfolio of products for the future. Hopefully the approval process for registration can be shortened. OTC products and their marketing was transferred from GRmidas Medical Service (China) Co. Ltd. to Gedeon Richter (China) Pharmaceuticals Co. Ltd. once Richter fully acquires this company too in early 2017.

Active in promotional purchases, storage and distribution, Moscow based **Pharmarichter O.O.O.** proved to be a high-performing company in 2016 in both technical and financial terms.

Devaluation of the national currency has a major effect on the figures of Richter's fully owned exclusive Kazakh importer **Gedeon Richter KZ L.L.P.** After the devaluation impacts of previous periods, the Kazakh company's financial status was stabilised in 2016. Furthermore, since 1 October 2016 the distribution company has undertaken agency activities for Gedeon Richter Plc. in Kazakhstan, therefore the company now generates income from marketing services too. The outstanding investment expenditure resulted from the addition of the new business (transfer of 94 vehicles belonging to the network of pharmaceutical representatives as in-kind contribution).

The core business of **Richter-Helm BioTec GmbH & Co. KG** has been project management and business development in the field of microbial biotechnology over the

past years, focusing on Group projects (teriparatide). Similarly to the previous year, the 2016 performance of the company was in keeping with development plans.

The priority task of U.S. based **Gedeon Richter USA Inc.** continues to be the support of business development and strengthen strategic partnerships in the region.

Medimpex UK Ltd. is active in traditional trading in the United Kingdom.

Latin-America

As a first step of expansion in Central and South America started in the second half of 2013, the parent company established a company in Colombia named **Gedeon Richter Colombia S.A.S.**, with the main function to provide marketing and registration related services for the introduction of Richter's products in the region. Securing the necessary registrations and authorizations was started in 2015 and Esmya was launched in 2016.

In Mexico Richter has 80% share as a result of a two-stage transaction in **Gedeon Richter Mexico SAPI de CV**. With its portfolio limited for the time being, the Mexican company met the projected turnover in 2016. Esmya was added to the portfolio of products and generated steadily rising sales. With a view to portfolio expansion, securing the regulatory authorizations required for registration is in process. Gradual devaluation of the Mexican peso dampens the otherwise successful company's performance.

Richter has a 51% share in the Brazilian company **Gedeon Richter do Brasil Importadora Exportadora e Distribuidora SA** which continued its marketing and registration related activities in 2016 in addition to commercialization of the existing portfolio of products; however, product sales were highly volatile because of the instability of the market. In an effort to offset the negative effect the owners increased the company's capital by BRL 453,675.37 at the end of the year.

In May 2014 Richter signed an acquisition agreement in respect of **Mediplus N.V.**, which resulted in holdings in Curaçao, Bolivia, Chile, Peru and Ecuador and strengthens Richter's penetration in Latin America. In 2015 became the sole shareholder of Mediplus Group. In

the course of 2016 Esmya was sold by all companies and the portfolio of Richter's product expanded in the countries of the region.

b. Wholesale and retail

Romania

Armedica Trading S. R. L. is the holding company of Richter Group's Romanian pharmaceutical wholesale and retail trade segments.
The Hungarian parent company developed a full-fledged vertical sales network in Romania with the companies owned by Armedica as endpoints. The two outlets continues to play an important role in implementing the strategic goals of the Romanian and Hungarian parents, predominantly in the distribution of the Group's finished products and promoting Richter Group in Romania.

The Group's wholesale company in Romania is **Pharmafarm S.A.** In 2016 the company continued the trading policy started in 2015, and as a result it closed the year with an increase in sales income as well as a stable margin. The company maintained its cost containment and its strong and balanced customer management, inventories and sourcing policies. Thanks to a strict customer rating system customer-side impairment was kept lower than in previous years and impairment reversals dominated. The company generated a stable operating profit throughout the year. Collaboration continues to ensure Pharmafarm S.A.'s prominence among the suppliers of Gedeon Richter Farmacia S.A.

Gedeon Richter Farmacia S.A. is the Romanian group's retail company. Steps to streamline GRFA S.A.'s portfolio in order to improve efficiency were completed. In 2016 only one pharmacy licence was sold and the network consisted on 88 pharmacies in December. Turnover per outlet was 5% higher on the average year-on-year. There are still loss generating pharmacies, but impairment reported in previous years is now superseded by reversals related to the licences of the increasingly profitable pharmacies.

Ukraine and the CIS

After the termination of wholesale and retail, the only activity of **Gedeon Richter Ukrfarm O.O.O.**, Richter's fully owned Ukrainian subsidiary is to operate the Kiev headquarters owned by Gedeon Richter Group.

In the Moldovan pharmaceutical market the presence of Richter has become a dominant feature, as the Company has secured outstanding market shares for years. This success is the result of Richter's Moldovan agency and the excellent and successful cooperation of the retail and wholesale companies. Sales of Richter's products are efficiently supported by **Richpangalfarma S.R.L.**, a key player in the pharmaceutical wholesale market since 1996 in which Richter holds a 65% stake.

Moldova introduced regulations to maximise price margins but this did not cause a significant setback in the operation of **GR–Retea Farmaceutica S.R.L.** operating the network of pharmacies. After revamping the sales and inventories policies and redesignin the portfolio of products the 41-strong network's performance was reliable.

The economy of Armenia was hit hard when the annual GDP shrank to 2.6% in Q3. In these circumstances Richter' Armenian wholesale and retail holdings had to reckon with plummeting sales in 2016. On the positive side, the wholesale subsidiary **Richter-Lambron O.O.O.** made a successful appearance in the market of third-party products and continued to expand its network of suppliers and customers.

With its expanded network of 26 pharmacies, the sales of **Gedeon Richter Aptyeka Sp O.O.O.** declined drastically and profits dropped likewise. The outstanding profitability of previous years fell so much by the end of 2016 that the company needed a significant support from the associated wholesale company. The retail company tries to compensate for the situation by quality-driven exchanges of pharmacy units and cost containment.

The performance of the two wholesale companies with Richter's majority share operating in Jamaica (**Medimpex Jamaica Ltd.** and **Medimpex West Indies Ltd.)** resulted in a steadily improving turnover. As a result of the wholesalers' activities Richter managed to step up the distribution of its products in the region in 2016. On the negative side,

successful operation is hampered by the devaluation of the Jamaican currency against the dollar.

There was no change in the domestic wholesale share: the parent company continues to be a shareholder of the biggest pharmaceutical distributor in Hungary.
As a result of steps taken in previous years to enhance efficiency, **Hungaropharma Zrt.** continued to improve its earnings in 2016. Richter directly holds 30.68% of the company's shares.

c. Other consolidated companies segment

There has been no change in the profiles of the other consolidated companies of Richter Group (engineering, real estate management, quality control, forwarding, etc.); they provided continuous support fully in line with expectations and with good performance throughout 2016. Operation of these affiliated undertakings is focused predominantly to Hungary.
Richter's undertakings in this segment with foreign sites continue to be dormant. (Nedermed B.V., Medimpex Japan Co. Ltd. and Ambee Pharmaceuticals Ltd.)

Impact of the market environment; the Group's global strategy and activity

With its global business comprising five continents, Gedeon Richter is unique among the Central Eastern European pharma companies as its primary activities of the research and development, manufacturing and marketing of pharmaceutical products are supported by a number of subsidiaries, joint ventures and associated companies. Our manufacturing subsidiaries, which operate in our traditional markets, together with our specialized marketing network have created the foundation for a strong regional multinational Group. As a result of developments that started in the early 1990s today a number of marketing and service companies support the presence and activity of the Richter Group and strengthen its market positions in a number of countries around the world.

In response to the economic crisis in Russia, in the late 1990s the Company has re-tailored its long-term strategic goals and has been aiming at strengthening its regional-

multinational activities whilst maintaining stable positions in its traditional markets on the one hand, and strengthening its presence in the EU and the United States on the other hand with proprietary and generic products, and has sought to build long-term co-operation in supplying active pharmaceutical ingredients. The primary focus of the Company is on the expansion of the women's healthcare business and an increase in generic sales, the latter in preparation for upcoming patent expires. In the United States we concluded long-term supply contracts with manufacturers specialized in women's healthcare products.

Revamped in 2007, Richter's strategy has raised the support of the so-called specialty pharma products, i.e. development, manufacture and sales of pharmaceutical products with high value added a priority strategic goal. This goal is served by R&D projects conducted in connection with the central nervous system and in the field of biotechnology, and also by the ongoing development and expansion through acquisitions of the women's healthcare portfolio.

Implementation of the above strategy resulted in a significant increase of sales income in the EU markets. Income from sales increased likewise in the countries that have been Richter's traditional markets and who joined the EU after 2004. The latter trend is particularly significant as drug subsidies in the new accession countries are generally underfinanced, which led the Company to reduce the price of some of its products. The 2014 Ukraine crisis and the massive devaluation of the rouble curbed the dynamic growth of the pharmaceutical market that had characterised the CIS region in recent years and resulted in plummeting sales revenues mainly in Russia and Ukraine. As a result of the new sales scheme Richter strengthened its position in the Western European and Chinese markets and due to acquisitions, also in the Central and South American region. As a result, the contribution of international markets to total sales achieving 90% in 2016 too.

Richter developed a long-term collaboration with several large international companies in research and development, sales and production in various markets (the EU, the U.S., Japan and Russia).

After years of perpetual uncertainties and repeated cuts since 2006, the Hungarian pharmaceutical market was characterised by relative stability in 2016. The surtaxes affecting the pharmaceutical industry were offset up to 90% by the tax benefits the

Company was granted on account of its R&D activities. While the semi-annual blind bidding process introduced in 2011 designed to force the pharma companies to cut their prices resulted in a loss of HUF 35 million in 2016, the Company was able to compensate for it by introducing new products.

1.2 Main objectives for 2016

The Group's main objectives for 2016 were as follows: to expand sales despite a difficult market environment; to retain and improve market shares; and to strengthen the strategy of standing on multiple legs in the market; further development of cooperation between Group companies; based on the strategic principles, to shift business to enhance the contribution of high value added products; to expand the gynaecological business; to develop a new proprietary CNS (Central Nervous System) product; and to take further steps in the development of biosimilar products.

In 2016 significant advancement was achieved in the following areas:

- The pharmaceutical production segment significantly increased its income from sales in the EU markets (particularly in the EU15), as well as in China and the Other countries segment.

-On 17 September 2015 Richter and Allergan were pleased to announce that FDA granted Allergan marketing authorization of cariprazine for the treatment of manic or mixed episodes of bipolar I disorder and schizophrenia in adults. From the first quarter of 2016 the product will be sold in pharmacies of the United States under the trade name of Vraylar™. Besides its long term positive financial impact this event has an obvious significance in terms of industrial history. The two companies released a clinical and regulatory update on the cariprazine programme in August 2016. Topline results from the MD-72 trial indicate that flexible doses of cariprazine did not separate significantly from placebo as an add-on treatment in adults with major depressive disorder (MDD) in this trial, therefore the companies will continue to work on a subsequent Phase III trial to prove efficacy.

-On 29 March 2016 the European Medicines Agency (EMA) started assessment of the marketing authorisation of cariprazine for the indication of schizophrenia. In August of the same year Richter and Recordati signed a licence agreement granting Recordati exclusive sales license to commercialise the product in Western Europe as well as Algeria, Tunisia and Turkey.

-In the context of a HUF 15 billion investment programme Richter is expanding the Debrecen biotechnology plant constructed in 2012 for the development and manufacturing of biosimilar products. A Government grant has been received in amount of HUF 5 billion. By creating new jobs the project will almost double the biotech manufacturing capacity.

-On 4 January 2016 Richter announced that the European Medicines Agency (EMA) has accepted Richter's regulatory submission for the proposed biosimilar to Eli Lilly's Forteo (teriparatide). The biosimilar teriparatide has been developed by the Company's subsidiary Richter-Helm BioTec GmbH & Co. KG. According to the relevant license agreements, biosimilar teriparatide is expected to be launched under both Richter-Helm BioTec GmbH & Co. and Stada labels in Europe following the patent expiry of the original product. On 14 November 2016 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion on the product and accordingly proposes the granting of marketing authorisation for the biosimilar teriparatide Terrosa. Following on the positive opinion on 4 January 2017 the European Commission granted marketing authorisation for Terrosa.

-In December 2015 it was announced that the EMA had accepted Richter's regulatory submission for its proposed biosimilar to Amgen's Neulasta (pegfilgrastim). In December, 2016 the Company withdrew the application after the CHMP's notification in November that the data submitted were not sufficient for a positive evaluation of the risk/benefit analysis related to the product. Richter is committed to continue with the clinical development programme and registration of pegfilgrastim.

-With a view to expanding its Women's Healthcare portfolio. at the end of June 2016 Richter acquired Finox Holding, a Swiss based biotech company engaged in the development and commercialisation of innovative and cost effective products addressing

female fertility. Finox Holding's product Bemfola® is a recombinat human follicle stimulating hormone (r-hFSH), the first biosimilar r-hFSH product to be granted marketing authorisation in Europe. Richter has obtained global rights for the commercialisation of Bemfola® (with the exception of the United States) thereby intending to emphasize its commitment to biosimilar products.

-In a joint press release in May 2016 Richter and Allergan plc announced positive results from the Venus I pivotal Phase III clinical trials that evaluated the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids.

-Following the lines of the "specialty pharma" strategy developed in 2007, in 2015 Richter signed a license and distribution agreement with Bayer HealthCare to commercialize Bayer's transdermal contraceptive patch under the trade name Lisvy. In October 2016 Richter initiated immediate withdraw after receiving Bayer's notification that the results of certain stability tests conducted with the product had not met the product specifications. The two companies are working together to identify the causes leading to the test results.

-As another step towards the implementation of its biosimilar strategy, in October 2016 Richter signed an agreement on the technology transfer to manufacture trastuzumab, a monoclonal antibody developed by DM Bio of Korea, and to take over the licence of development and commercialisation. Richter will secure exclusive distribution rights for the territory of Europe, the CIS region and Latin America.

-To bring development and manufacture of biosimilar products to new heights the Company set up an independent organisational unit named Biotechnology Business, which has been in operation since 1 July 2016.

-In December 2010 Richter announced the foundation of Gedeon Richter Rxmidas Joint Venture Co. Ltd. with an initial equity share of 50%. On 22 January 2016 it was announced that Richter acquired from its partner, Rxmidas Pharmaceuticals Holdings Ltd. its outstanding 50% stake in the joint venture company. Consequently, with its 100% holding Richter will be in full charge of its contraceptive and OTC business in China.

-The Accounting Act provided for the mandatory application, as of 1 January 2017, of the International Financial Reporting Standards for the purpose of stand alone financial statements for companies whose securities are traded in the regulated market of any of the EEA member states. Pursuant to this provision. from 1 January 2017 Richter must apply the IFRS for the purpose of financial reporting. From 1 January 2017 Richter prepares its reports and statements in accordance with its stand alone IFRS.

-In 2016 Richter took further steps to expand its international business through a capital increase in its manufacturing companies and continuing its investments. Driven by the goal of adapting to the Russian economic policy of favouring local production. Richter made supporting investments into the Russian subsidiary a special priority.

1.3 Share structure of Gedeon Richter Plc.

	Ordinary shares Number	Voting rights * %	Share capital %
Domestic ownership	59,832,738	32.15	32.11
State ownership total	47,051,817	25.28	25.25
including MNV Zrt,	*47,051,668*	*25.28*	*25.25*
including Municipality	*149*	*0.00*	*0.00*
Institutional investors	6,070,053	3.26	3.26
Retail investors	6,710,868	3.61	3.60
International ownership	126,289,476	67.84	67.75
Institutional investors	124,591,828	66.93	66.84
including Aberdeen Asset Management Plc,	*18,243,530*	*9.80*	*9.79*
including Harding Loevner LP ***	*9,367,925*	*5.03*	*5.03*
Retail investors	1,697,648	0.91	0.91
Treasury shares**	241,634	0.00	0.13
Undisclosed ownership	11,012	0.01	0.01
Share capital	**186,374,860**	**100.00**	**100.00**

* Article 13,8 of the Statutes restricts the voting rights of shareholders, alone or together with other related persons to no more than 25%.

**Treasury shares include the combined ownership of the parent company and subsidiaries.

***On 21 October 2016 Harding Loevner LP's influence increased to 5.03%.

The data in the table above were compiled based on the share registry adjusted by information provided by KELER Zrt. as clearing company, global custodians and nominees, Given the confidentiality of investors' interests, the records of some investment funds may contain ownership and/or voting rights data that differ from those above.

There are no shares in issue that involve special control rights.
Gedeon Richter Plc, has no shares whose market trading is not permitted.
There is no restriction regarding the transfer of shares in issue representing the share capital.
The Company is not aware of any agreement between shareholders that would result in restricting shares issued or the transfer of voting rights,
Each share with a face value of HUF 100 entitles the holder to one vote; however, the Statutes restrict the exercise of shareholders' rights by stipulating that at the AGM no shareholder shall exercise voting rights, in their own right or as a proxy of another shareholder, alone or together with other related person(s) in excess of 25% of the voting rights represented by the shareholders attending in person or by proxy.

As of 1 January 2016 the number of ordinary shares comprising the Company's subscribed capital was 186,374,860. The number of shares did not change in the course of 2016.

The closing price of shares as of 30 December 2015 was HUF 5,498 compared to HUF 6,210 as of 30 December 2016, Average monthly share prices in 2016 varied between the minimum of HUF 5,110 per share (in February) and the maximum of HUF 6,062 per share (in December).

1.4 Treasury shares held by the Group

Group	Ordinary shares	
	31.12.2015	31.12.2016
Shares	811,655	241,634
Nominal value HUF`000	81,166	24,163
Book value HUF`000	3,206,496	1,285,077

Gedeon Richter Plc. purchased 50,000 ordinary shares in June 2016, than 600,000 ordinary shares in November 2016 from its affiliated company Richter Gedeon Befektetéskezelő Kft., thus the number of Richter shares held by subsidiaries was 60,284 as of 31 December 2016.

Following the decision of the Board of Directors 604,789 ordinary shares were granted as a bonus to employees whose outstanding performance contributed to Richter's earnings for the year.

In keeping with the programme approved by the National Tax and Customs Administration of Hungary (NAV) related to employee share bonuses the Company granted 285,459 Treasury shares to 4,342 employees on 16 December 2016.

1.5 Corporate governance

Statement on corporate governance

Corporate Governance principles and practice implemented by the Company are in accordance both with the guidelines set by the Budapest Stock Exchange, the directives of the capital market, the provisions of the Civil Code and the Statutes. In addition, the Company reviews from time to time the principles applied to ensure, on an ongoing basis, in order to appropriately control the Group's operation in compliance with continuously developing international practices. In matters where the Company does not apply the guidelines of the Budapest Stock Exchange or the directives of the capital market, or does not apply them in their entirety, the Annual Report on Corporate Governance is applicable. The Report on Corporate Governance is part of the Annual Report; it is

deliberated and approved by the AGM as a separate agenda item, and it is published on the website of the Budapest Stock Exchange as well as on the Company websites.

In 2016 the Company did not depart from the regulatory methods described above.

Gedeon Richter's key principles of Corporate Governance are to create and maintain satisfactory dialogue with shareholders so as to enhance shareholder value, to differentiate the roles and responsibilities of the Board of Directors, the Executive Board and the Supervisory Board, and to operate the Group's business in compliance with legal and regulatory requirements and to maintain the highest ethical standards.

Corporate bodies

The Annual General Meeting is the supreme decision making body of the Company, and comprises all shareholders. The Annual General Meeting decides, inter alia, on the adoption of the annual financial statements and the appropriation of profit, the election or removal of members of the Board of Directors, Supervisory Board and Audit Committee, the appointment of the statutory auditor, amendments to the Statutes, changes that have a significant impact on the Company's share capital and other issues within its competence under the Statutes.

Rules of amendment to the Statutes:

- As a general rule, unless otherwise provided for by the Statutes, modification of the Statutes require a three-quarter majority of the votes present at the General Meeting, but at least 20% + 1 vote;
- The following decisions require a greater majority pursuant to the Statues (90% majority of the votes present at the General Meeting, but at least 45% + 1 vote of all the voting shares):
  - Changing the form of the Company,
  - Transformation and termination of the Company without succession,
  - Possible major cutback or discontinuation of the Company's R&D or manufacturing activities in Hungary,
  - Any change in the name, the registered company name and/or trade name of the Company,
  - Changing the seat of the Company,
  - Discontinuation or deletion from the Companies Register of the Company's core business,

- Articles 12.1 d) and y) of the Statutes specifically provide for the election, removal and remuneration of the members of the Board of Directors, the Supervisory Board, the Audit Committee and of the Auditor,
- In matters falling within the exclusive competence of the General Meeting as defined by Article 12.1 of the Statutes (except for the matters listed above) the following rules are applicable:
  - a three-quarter majority of the votes present at the General Meeting, but at least 35% + 1 vote;
  - a three-quarter majority of the votes present at the General Meeting, but at least 20% + 1 vote;
  - a simply majority of the votes present at the General Meeting, but at least 20% + 1 vote;

The **Board of Directors** is the supreme decision-making body of the Company except with respect to those matters reserved for shareholders. A majority of Directors of the Board are Non-Executive Directors. All the non-executive directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The offices of Managing Director and Chairman are held separately until at the end of 2016. The latter is elected from among the non-executive directors, Directors of the Board are not entitled to issue or redeem shares. The Board works based on an agreed agenda in reviewing the key activities of the Company's business. The Company Secretary is responsible to the Board and is available to individual Directors in respect of Board procedures. Board members are elected by the AGM for a maximum term of five years. In 2004 the Board decided to set up two subcommittees which prepare and submit proposals contributing to the Board's decision making process. The subcommittees each consist of at least three non-executive independent Board directors.

The **Corporate Governance** and **Nomination Subcommittee** is responsible for considering and making recommendations to the Board concerning the appropriate size, functions and needs of the Board. This responsibility includes establishing the criteria for Board membership; conducting appropriate inquiries into the background and qualifications of possible candidates; considering matters of corporate governance and reviewing periodically our Corporate Governance Principles. The Board of Directors

discusses the recommendations of the Corporate Governance and Nomination Subcommittee and drafts a proposal for the election on officers for the consideration of the General Meeting.

The **Remuneration Subcommittee** is responsible for establishing annual and long-term performance goals and objectives for elected officers. This responsibility includes preparing proposals for the compensation of the Managing Director.

The **Executive Board** is responsible for the executive management of the Company's business. The Executive Board is chaired by the Managing Director, In order to maintain a sharp focus on strategic management the board comprises only the Executive Directors.

Overseeing the management of the Company is performed by the **Supervisory Board.** It meets on a regular basis in accordance with statutory provisions and at other times when necessary to consider details of the Company's operating activities. It submits proposals to the Board of Directors and discusses the Company's strategy, financial results, investment policy and systems of internal audit and control. The Supervisory Board is provided with regular and detailed information about the management of the Company, and the chairman is entitled to attend the meetings of the Board of Directors with the right to consultation. The members of the Supervisory Board are elected or re-elected by the AGM for a maximum term of three years,

The Company has an **Audit Committee** comprising three members elected by the General Meeting from among the independent members of the Supervisory Board. The Audit Committee is responsible for the oversight of the Company's internal accounting standards.

The company has no agreement with its officers or employees that provide for indemnification in the event the officer resigns or the employee terminates their employment, or the officer or employee terminate their legal relationship illegally or the legal relationship ceases as a result of a public bid.

Risk management and internal control

Richter undertakes risk management in the context of running its business efficiently. We aim at the timely recognition, the precise understanding and the assessment of the risks, and to implement effective countermeasures. Our risk management activity includes the evaluation of internal controls so that our risk assessment supports the Company in maintaining efficient internal control.

Richter's view is that not all risk management aspects can be formalised, and in our risk-related decisions and in the implementation of internal requirements and rules we rely on the Company's relevant bodies and trust the skills, experience and judgement of our decision-makers.

Accountability and control related to risk management

- The Board of Directors is responsible for the overseeing and control of the Company's risk management and calls on the Executive Board to report in order to identify the main risk areas; in collaboration with the management it develops the basic risk management requirements, and regularly acquires information on the effectiveness of related risk management procedures and internal control processes.
- The Executive Board is answerable to the Board of Directors in respect of the implementation of risk management procedures and is ultimately accountable for risk management. Moreover, it is the duty of the Executive Board to to develop and maintain an internal control system to manage risks associated with the Company's business and to promote Company's goals.
- Strategic risk management is directly a duty of the Executive Board.
- The operational areas are responsible for managing their own operational and compliance risks. In meeting this duty the heads of the areas of operation are supported by the meetings of the corporate bodies. In the context of the company's internal reporting procedure heads of the operational areas report to the Executive Board on risks arising in their particular area.
- Financial risks are managed in a centralised fashion by the Company's financial management.

- The key components of control are management control, integrated process control, independent internal audits, and external auditors.
- Internal audits are conducted by the Audit Department based on a preliminarily approved annual schedule and aim to ascertain by an independent and objective assessment whether the internal control system is suitable for efficient risk management. When drawing up the annual audit plan the Company's risks are taken into consideration (on the basis of importance and by rota), as are the Executive Board's recommendations.
- Risk management, internal controls and corporate governance are evaluated annually in the context of the Annual Report.
- The Supervisory Board and the Audit Committee reviews the defined risks and risk management mechanisms once a year.

Other information

Over the past years Richter has grown from a regional player to a global company despite a keen competition in the pharmaceutical market. Besides the advantages of expansion the Company faces day by day the challenges of compliance with a complex regulatory environment brought by global operation. In keeping with international industrial practice a Global Compliance Program was introduced in November 2016 with the main goal of following, compliance and enforcing compliance with European and national regulations, industrial standards, and internatioal business standards and ethics. As a first step the Global Compliance Program was introduced in Hungary and in the European Economic Area states, to be followed in the near future by China and Latin America, where strict anti-corruption legislation and other local regulations also require guidance by the parent company.

The Board of Directors announced that Mr. Gábor Orbán, member of the Executive Board was appointed Director of Corporate Strategy (6 September 2016), and Chief Operating Officer from 1 January 2017 (appointed on 6 December 2016).

On 5 December 2016 the Board of Directors informed the shareholders that Mr. William de Gelsey resigned of his position as Chairman from 1 January 2017 whilst continuing to

serve on the Board. At its meeting held on the same day the Board of Directors elected Mr. Erik Bogsch, CEO of the Company to serve as Chairman with effect from 1 January 2017.

1.6 Other information

In 2007 the Company commenced construction of a new plant in Debrecen to develop and manufacture biotechnology products, and announced its involvement of tax benefit with the contents set out in the relevant Government Decree. The investment that meets the condition in Section 22/B (1) b) of the Act on Corporate Tax and Dividend Tax was concluded in 2011 and all the equipment that formed part of the project was commissioned. The Company made use of the tax incentive related to the investment project in the 2012 and 2013 business years. The unexpected economic troubles of 2014 (Ukraine crisis, devaluation of the rouble) had a negative impact on the Company's finances, therefore in 2014 it did not utilise the development related tax incentive. The outstanding tax incentive facility was again used in 2015.

The parent company prepared consolidated audited financial statements for the first time for the 2002 fiscal year. Since 2003 the quarterly reports to the Stock Exchange have included consolidated non-audited balance sheet, income statement and cash flow statement data according to IFRS. Availing itself with the option provided by the Hungarian Accounting Act, since 2005 Richter has only prepared consolidated financial statements in accordance with IFRS, involving its subsidiaries, joint ventures and associated companies with the parent company.

With effect from 1 January 2017 stand-alone IFRS reporting also became compulsory for Gedeon Richter Plc.The Company implemented changes to the IT system supporting the transition. As part of this development the Company reviewed its methodology to eliminate intra-group profit on sale of inventories. This review discovered that previously applied average margin for elimination was not precise on purchased inventories and that intra-group profit on own manufactured inventories was not fully eliminated. As a consequence, the inventory had been incorrectly overstated and cost of sales understated.

The above described IT development enabled the Group to fully eliminate intra-group profit on sale of inventory.

Additionally, the preparation of stand-alone IFRS report of Gedeon Richter Plc. has revealed that the book value of previously identified difference between the IFRS and statutory value of property plant and equipment and its depreciation have not been reviewed annually. As a consequence, the balance of property, plant and equipment was understated and previous years' depreciation was overstated. The review resulted in correction of the value of property plant and equipment and retained earnings.

In accordance with IAS 8 standard the corresponding figures for previous periods have been restated accordingly.

2. The Group's 2016 operating review

2.1 The balance sheet as of 31 December 2016

ASSETS

The Group's assets amounted to HUF 813,877 million, HUF 66,883 million (9,0%) higher than the opening value. Fixed assets were up by HUF 64,966 million, and current assets by HUF 1,917 million.

Fixed assets

Non-current assets amounted to HUF 503,931 million in the reported period, HUF 64,966 million (or 14.8%) up from the reference figure. Other intangibles assets were HUF 41,850 (or 27.7%) up million year-on-year mainly as a result of the acquisition of property rights attached to Bemfola® in the wake of the Finox Holding transaction reduced by the impairment consequent to the withdraw of the contraceptive patch Lisvy®, and the depreciation and year-end currency related restatement of Esmya. The HUF 13,052 million (or 7.3%) growth of Property, plant and equipment is attributed primarily to the development of the new state-of-the-art freeze-drying unit and the injectables packaging plant. The HUF 3,744 million (or 5.8%) increase in Goodwill is the net result

of the settlement of the Chinese acquisition, the revaluation of goodwill on acquisitions in previous years, and the impairment of goodwill related to Mediplus Group. The fair valuation of the Russian wholesale and retail group Protek upped the value of the Other financial assets item.

Current assets

Current assets were 0,6% or HUF 1,917 million above the reference figure of HUF 308,029 million. Mention should be made of the fall in Cash and cash equivalents (HUF -36,321 million or -27.4%) explained by the Finox Holding acquisition and the EUR 21 million loan repayment. Conversely, the value of current assets rose mainly due to an increase in Inventories in the wake of Finox Holding's consolidation (HUF +16,566 million or +25.6%) and the HUF 23,684 million (25.6%) rise in Trade receivables. The latter includes the exchange rate impact of trade receivables in Russia.

SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity

In 2016 shareholders' equity was HUF 681,873 million, or 10.3%, higher compared to the 31 December 2015 figure.

Liabilities

The Group's total liabilities amount to HUF 132,004 million.

Non-current liabilities were HUF 42,792 million, HUF 14,080 million below the 31 December 2015 figure. Liabilities are reduced by a EUR 25 million loan portfolio the parent company reclassified as current liabilities. The combined value of Other long-term liabilities and Accrued and deferred liabilities is HUF 3,369 million less year-on-year due mainly to reclassification of the deferred Chinese and Mexican acquisition prices as a liability due and payable within one year. The decrease was partly offset by the advance amount of subvention granted by the Ministry of National Economy to fund innovative pharmaceutical research and development.

Current liabilities amounted to HUF 89,212 million as of 31 December 2016, 24.4% above of the 31 December 2015 figure, primarily as a result of the reclassification of the

items described above and the HUF 7,717 million (or 20.2%) increase of the Trade payable item.

2.2 The 2016 income statement

The Group's profit for 2016 is HUF 67,023 million, 24.4%, or HUF 13,160 million, higher year-on-year. Declining margin (due to the weakening EUR-RUB rate and Bemfola's depreciation), increase in Sales and marketing costs, write-off related to Lisvy's withdraw and iinpairment of Mediplus' goodwill were only partially offset by the one-off fair valuation difference related to Gedeon Richter Rxmidas JV Co. Ltd., and the Recordati milestone reported in the Other income and expenditure item, and the decrease in R&D costs. These processes had a negative impact on operating profit, however, this was compensated for net financial income (after a significant loss in the reference period attributed to the devaluation of the rouble and the Kazakhstani tenge).

Richter Group's activity can be classified into three operating segments. The Pharmaceutical Production segment includes the companies that are involved in the Group's core business, i.e. research, development and production of pharmaceutical products; it also includes the distribution and marketing companies that are directly involved in the sales and promotion of products. The wholesale and retail segment includes the performance of distribution companies and pharmacies that are part of the sales network in the various regional markets and, as such, convey our products to consumers. The third operating segment (Other segment) presents all the other consolidated companies that provide services in support of the production members of the Group, and are also engaged in non-pharmaceutical activities.

	Pharmaceutical Production segment		Wholesale and Retail Trade segment		Other segment		Eliminations		**Group total**	
	2015* HUF million	2016 HUF million	2015 HUF million	2016 HUF million	2015 HUF million	2016 HUF million	2015 HUF million	2016 HUF million	**2015* HUF million**	**2016 HUF million**
Total sales	308,910	323,839	63,691	74,464	4,602	4,603	(11,983)	(13,216)	**365,220**	**389,690**
Gross profit	212,170	217,283	7,776	7,629	911	571	(248)	205	**220,609**	**225,688**
Operating profit	66,148	55,204	893	1,158	(98)	151	(261)	(1,897)	**66,682**	**54,616**
Share of profit of associates	228	(835)	1,308	2,566	4	41	(38)	26	**1,502**	**1,798**
Closing headcounts	9,649	10,073	1,443	1,475	339	344	-	-	**11,431**	**11,892**

* Data restated (See 1.6 Other information).

2.2.1 Income from sales

Income from the pharmaceutical production segment

Region	2015 HUF million	2016 HUF million	Variance	
			HUF million	%
Hungary	34,038	34,979	941	2.8
Export				
CIS	111,964	111,598	-366	-0.3
EU *	107,378	114,631	7,253	6.8
USA	18,103	18,813	710	3.9
China	16,849	21,616	4,767	28.3
Latin America	5,997	5,819	-178	-3.0
Other countries	14,581	16,383	1,802	12.4
International markets total	274,872	288,860	13,988	5.1
Total	*308,910*	*323,839*	*14,929*	*4.8*

* Excluding Hungary

The 2016 net income from sales **totalled** HUF 323,839 million, HUF 14,929 million in excess of the 2015 reference figure.

Income from the 2016 pharmaceutical production segment's sales was 2.8% higher compared to the reference year. International markets in HUF was 4.8% up; and in EUR, 4.2% up year-on-year.

There were changes in the breakdown of export by regions compared to the reference year: after a decrease of two percentage points the CIS markets' share was 34%. The EU

states' share remained the same and contributed 35%. The contribution of Hungary, the United States and the Other Countries region was 11%, 6 % and 5 % respectively. China's turnover contributed 7% in 2016 and grew two percentage point year-on-year. Latin America's share from sales was 2% in both the reference and the reported period.

Based on the 2016 year-end figures, the pharmaceutical production segment realized HUF 34,979 million sales **in the Hungarian market**, 2.8% (or HUF 941 million) above the 2015 figure.
The main factor was increasing Suprax, Esmya, Vidotin Komb, Xilomare and Duamild sales, reduced by dropping Kalmopyrin, Lisonorm, Klion and oral contraceptives. In 2016 oral contraceptives were the leading item in terms of sales contributing 8.8% to sales income.

In 2016 no significant changes took place in terms of price regulations in the domestic pharmaceutical market. Pharmaceutical representatives' registration fee was reintroduced as of 15 February 2009 and cost Richter HUF 219 million in 2015 and HUF 253 million in 2016.

With this performance the Company's market share was 5.4% in 2016, 0.1% above the reference year's figure. Richter ranked second in the prescription drugs market with a share of 7.4%.

The pharmaceutical production segment's income for **international markets** increased from HUF 274,872 million (EUR 887.6 million) in 2015 to HUF 288,860 million (EUR 927.4 million) in 2016.

Russia continues to the leading market of the **CIS** region and also of the Company with turnover denominated in RUB 12.8% above the reference year figure and the same in EUR terms, largely influenced by the massive devaluation of the rouble against the euro. The main pull products contributing to the increase were oral contraceptives, Mydocalm, Verospiron and Airtal curbed by dropping Panangin and Pregabalin-Richter sales.
Sales in Ukraine rose by EUR 3.0 million compared to 2015 resulting in an 11.3% boost in sales income. Growth leaders in Ukraine included Groprinosin, Verospiron and Quamatel, while Ekvator sales were lagging. Richter has introduced a more stringent receivables management policy and has reduced shipments to Ukraine because of the

volatile political and economic environment since the beginning of 2014. As regards Other CIS countries, Belarus, Kazakhstan and Turkmenistan achieved lower year-on-year turnover while Moldovan sales increased.

The total turnover achieved in the CIS market was HUF 111,598 million and contributed 39% to total export. Year-on-year decrease was 0.3% (HUF 366 million). Expressed in Forex, the turnover was EUR 358.3 million with a 0.9% decrease year-on-year.

Sales in the **European Union** totalled HUF 114,631 million, 6.8% above the 2015 figure. The region's contribution to exports grew to 40 %. Expressed in Forex, the increase amounted to EUR 368.0 million with a 6.1% increase y/y.

The turnover realized in the pharmaceutical markets of the EU15 region was HUF 58,980 million (EUR 189.4 million), 11.8% (in EUR 11.2 %) above the reference year figure. Owing to the efficient promotion efforts of the Western European network of pharmaceutical representatives the Company's strategic product Esmya realised a significant sales increase, which greatly contributed to the increase in the EU15 region.
On the other hand, the CEE Member States decreased their contribution to total sales in the EU region to approximately 49% in 2016 with a 1.2% increase in sales income in euro. The increase is attributed primarily due to the performance of Groprinosin, Grofibrat in Poland as well as Bemfola and Esmya, worsened by declining oral contraceptive sales income and, in the Baltic states, dropping Avonex sales due to the expiry of the relevant license agreement.

The turnover realised in the **United States of America** was up by 3.9% (HUF 710 million), or expressed in dollar, by 3.2% (USD 2.1 million). Outstanding in dollar terms, royalty related to Vraylar™ sales were held back by decreasing income based on profit sharing agreements due to mounting generic competition in the category if women's healthcare products.

Turnover in the **Chinese market** was HUF 21,616 million (EUR 69.4 million) with a y/y increase of HUF 4,767 million (or EUR 15.0 million). Increasing sales income generated by Cavinton and Escapelle should be particularly noted. The latter is the result of the acquisition of our OTC joint venture. The price difference compensation due to the strengthening of the yuan against the euro accounted for retrospectively is reported in the

Sales income line item, and the exchange rate compensation is reported in the Other incomes item.

Latin American sales dropped by 3.0% in HUF and 3.7% in USD. The sales decrease is attributed mainly to oral contraceptives. The region's share from the total income achieved in international markets is 2%.

In the category of **Other countries**, oral contraceptives were the leading products. In the Other countries region the turnover was HUF 16,383 million (EUR 52.6 million). Compared to 2015, turnover was 12.4% higher (in Forex, 11.7%). The contribution of the region to international sales was 6 %.

The contribution of priority products to the pharmaceutical production segment's sales

Finished products contributed 92% to the 2016 sales revenues; the contribution of services was 3%, that of APIs was 2%, and sales of royalties and purchased materials contributed 2% and 1% respectively.

The following table contains the Top Ten product groups based on their contribution to total sales revenues:

2015				2016			
Rank Rank		Sales HUF million	Share %	Rank Rank		Sales HUF million	Share %
1	Oral contraceptives	90,680	29.3	1	Oral contraceptives	87,002	26.9
2	Cavinton/vinpocetine	26,567	8.6	2	Cavinton/vinpocetine	28,760	8.9
3	Mydeton/tolperisone	17,086	5.5	3	Esmya /ulipristal acetate	21,504	6.6
4	Esmya /ulipristal acetate	15,406	5.0	4	Mydeton/tolperisone	17,647	5.4
5	Panangin/asparaginates /enalapril, lisinopril	15,084	4.9	5	Panangin/asparaginates /enalapril, lisinopril	13,150	4.1
6	Verospiron/ /spironolactone	12,012	3.9	6	Verospiron/ /spironolactone	12,239	3.8
7	ACE inhibitors /enalapril, lisinopril	11,128	3.6	7	ACE inhibitors /enalapril, lisinopril	10,344	3.2
8	Lisonorm/ /lisinopril, amlodipine	8,556	2.8	8	Groprinosin/ inisine pranobex	9,108	2.8
9	Aflamin/aceclofenac	7,042	2.3	9	Aflamin/aceclofenac	7,562	2.3
10	Quamatel/famotidine	6,757	2.2	10	Lisonorm /lisinopril, amlodipine	7,175	2.2
	Total	210,318	68.1		Total	214,491	66.2
	Net income from sales	308,910	100.0		*Net income from sales*	*323,839*	*100.0*

The contribution of the ten leading product categories to total sales was 66.2 %, 1.9 percentage points lower than the reference year's figure.

Oral contraceptives are the leading products with a turnover of HUF 87.0 billion, 4.1% lower than in 2015. The change was primarily due to declining sales of the German Drospirenone and Grünenthal portfolio and income based on profit sharing agreements, and was reduced by the royalty relating to Vraylar™ sales. The contribution of this product category to the 2016 total turnover was 26.9%, 2.4 percentage points below the reference year. The second most important product is original Cavinton with 8.3% higher

turnover compared to the reference year (rising sales income in China). Esmya's turnover was 39.6% higher year-on-year; the product advanced one place and managed to secure the outstanding third place. The growth in turnover is due primarily to an increase in sales income in the Spanish, German, French and British markets. While Mydeton sales (in Russia) were marginally higher, the product slipped one place. Panangin kept its fifth place despite an approximately 13% decline in sales (in Russia). As opposed to keener turnover in Russia and Ukraine, the market in Spain and Belarus was sluggish, which resulted in Verospiron keeping its sixth place. ACE inhibitors also kept their place achieved last year (7th) primarily as a result of declining Russian sales. Due to outstanding sales in Poland and Ukraine Groprinosin's turnover was 44.9% up and the product made it to the Top Ten list achieving eighth place. In 2015 it was 11th. Aflamin (Russian increase) kept its ninth place on the list. Conversely declining sales in Ukraine were the main factor contributing to Lisonorm's slip by two places, 10th in 2016. Tenth in 2015, Quamatel finished 11th in 2016.

The contribution of leading markets to the sales of the pharmaceutical production segment

In 2016 the Pharmaceutical Production segment's ten leading markets were as follows:

	2015				2016	
	HUF million	EUR million			HUF million	EUR million
1, Russia	79,781	257.7	1,	Russia	80,240	257.6
2, Hungary	34,038	109.9	2,	Hungary	34,979	112.3
3, Poland	21,577	69.7	3,	Poland	22,220	71.3
4, Germany	19,818	64.0	4,	China	21,557	69.2
5, United States of America	18,103	58.5	5,	Germany	19,833	63.7
6, China	16,756	54.1	6,	United States of America	18,813	60.4
7, Romania	8,898	28.7	7,	Romania	9,606	30.8
8, Ukraine	8,235	26.6	8,	Ukraine	9,216	29.6
9, Kazakhstan	7,638	24.6	9,	Spain	7,251	23.3
10, Czech Republic	7,396	23.9	10,	Czech Republic	7,092	22.8
Total	222,240	717.7		Total	230,807	741.0
Net income from sales	*308,910*	*997.5*		*Net income from sales*	*323,839*	*1,039.7*

The ten leading countries jointly contributed 71.3% to Richter Group's total pharmaceutical sales. Russian continues to head the list with almost unchanged sales income. Similarly to the reference year, Hungary finished second and Poland third in 2016. With a massive increase in sales income (Escapelle as a result of the OTC company's acquisition) China advanced two places (4th). On the other hand, Germany and the USA each slipped a place. Growing sales allowed Romania and Ukraine to retain their 2015 positions and finished 7th and 8th. Respectively Kazakhstan did not make it to the Top Ten and yielded its place to Spain, which finished 9th on the list. The Top Ten list was closed by Czech Republic in both periods.

Turnover of the wholesale and retail segment

	2015 HUF million	2016 HUF million	Variance HUF million	Variance %
Hungary	133	121	-12	-9.0
Export				
CIS	13,143	13,523	380	2.9
EU *	46,353	56,758	10,405	22.4
USA	-	-	-	-
China	-	-	-	-
Latin America	4,062	4,062	0	0.0
Other countries	-	-	-	-
International markets total	63,558	74,343	10,785	17.0
Total	*63,691*	*74,464*	*10,773*	*16.9*

* Excluding Hungary

Based on the year-end figures for 2016 the Wholesale and Retail segment realized HUF 74,464 million (EUR 239.1 million) income from sales, HUF 10,773 million (or 16.9%) above the 2015 figure.

The most significant portion of income generated by this segment was contributed by the Romanian pharmaceutical wholesale company (Pharmapharm S.A.) and Gedeon Richter Farmacia network of pharmacies. Sales in Romania increased by 22.4% in HUF terms. The driver of the growth was the wholesale company's rising sales. While delays in

payments to pharmacies eased, the Romanian pharmaceutical market is still characterized by massive delays in paying outstanding dues to pharma companies.

The rise in the Romanian region was slightly boosted by the performance of the wholesale and retail networks in the CIS (Moldova and Armenia).

Among the leading products of Wholesale and Retail, income from the sales of oral contraceptives, Lunaldin and Pregabalin increased.

Turnover of the other segment

	2015	2016	Variance	
	HUF million	HUF million	HUF million	%
Hungary	4,457	4,480	23	0.5
Export				
CIS	99	82	-17	-17.2
EU *	46	29	-17	-37.0
USA	-	-	-	-
China	-	-	-	-
Latin America	-	-	-	-
Other Countries	-	12	12	-
International markets total	145	123	-22	-15.2
Total	*4,602*	*4,603*	*1*	*0.0*

* Excluding Hungary

The turnover of the Other consolidated companies segment was almost the same as in the reference year (0.0%, -0.7% and -1.2%) in HUF, EUR and USD.

2.2.2 Costs of sales; operating profit

Costs of sales in 2016 amounted to HUF 164,002 million, HUF 19,391million more than the figures achieved in 2015. Costs of sales included depreciation in European markets on the intangible asset Esmya amounting to HUF 2,887 million and amortization of other intangible asset Bemfola amounting to HUF 1,010 million.

Gross profit from sales was HUF 225,688 million, approximately the same as the reference year figure (HUF 220,609 million). The **gross margin** was down from 60.4%

in the reference year to 57.9% in 2016. Devaluation of the rouble against the forint and the euro on an annual basis, dropping sales in the Other CIS countries market in the wake of deteriorating exchange rates, and depreciation on Esmya and Bemfola narrowed the margin. In addition, the contribution of the lower margin Romanian wholesale turnover increased, which also deteriorated the gross margin for the reported period. These impacts were only partially offset by royalty related to Vraylar™ sales from Allergan and increasing sales in the above-the-average margin EU15 and Chinese markets.

Within the operating costs item **Sales and marketing expenses** amounted to HUF 107,564 million in 2016, 9.4% higher year-on-year. Sales and marketing costs were 27.6% of sales revenues in the period of reporting. Increasing marketing costs in the EU15, China and Latin America and the cost booster effect of the consolidation of Finox Group was only partially compensated for by marketing costs containment in Russia, Ukraine and Other CIS countries (accompanies gy downsizing the sales network staff in the latter two countries), and additional annual based devaluation of the rouble and other CIS currencies.
Depreciation of marketing and brand related rights of the contraceptives acquired from Grünenthal added HUF 4,427 million to the level of costs and contributed 1.1% to total sales.

In 2016 **Administration and general expenses** amounted to HUF 20,339 million, 4.9% in excess of the 2015 figure. The increase is attributed to rising legal assistance and other advisory fee.

The rate of **R&D expenses** to sales incomes was 9.0% in the reported year and amounted to HUF 35,153 million, 1.0% above the reference year figure. The costs are partly imputable to biotechnology studies, and partly to the clinical trials in progress, conducted jointly with Allergan (Forest Laboratories). The research expenditure of the subsidiaries PregLem, Gedeon Richter Polska and Gedeon Richter Romania also contributed to the Group's R&D expenses.

The balance of **Other income and other expenses** increased from HUF 1,398 million expense in the reference year to HUF 8,016 million expense in 2016. The Company achieved an outstanding milestone related to the marketing authorisation of cariprazine in

the United States and biosimilar product development from Stada in the reference period. In Q3 of 2016 a one-off HUF 3,112 million milestone income was achieved on the bases of the exclusive licence agreement signed with Recordati to commercialise cariprazine in Europe. In the Chinese market a one-off income amounting to HUF 3,453 million was realized in conjunction with the acquisition of a 100% stake in the OTC sales company Gedeon Richter Rxmidas JV Co. Ltd. Applying IFRS 3 Business Combinations standard, Richter's initial 50% holding was reassessed at fair value. The resulting gains was reported in the income statement.
Impairment related to Lisvy's withdraw was HUF 2,405 million and to inventories, an additional HUF 849 million; based on information from Bayer, Richter is entitled to claim the latter amount in damages. Additional indemnification is currently negotiated by the parties.

The 20% tax payable in Hungary on the full-year subsidy calculated on the producer prices of subsidized products under the Drug Economy Act amounted to HUF 379 million in 2016.
The 2016 Other income and other expenses line item included HUF 5,432 million claw-back payments in Romania, Germany, France, Spain, Portugal, Belgium, Italy, Bulgaria and Latvia.

Impairment of the entire goodwill in conjunction with the Mediplus acquisition amounted to HUF 1,720 million.

In December 2016 Richter withdrew the licensing application for PEG-GCSF and accounted for HUF 660 million impairment on inventories.

The 2016 *operating profit* was HUF 54,616 million, 18.1% below the reference year figure. The decrease resulted from a declining margin due to weakening EURRUB rate on an annual basis, Bemfola's depreciation, increase in Sales and marketing expenses, write-off related to Lisvy's withdraw, impairment of Mediplus' goodwill, and the consolidation of Finox Group in the consolidation.

These impacts were partially offset by the royalty related to Vraylar™ sales, the one-off fair valuation difference, the Recordati milestone reported in the Other income and other expenses item, and the decrease in R&D expenses.

2.2.3 Other income statement items

Net financial income

The net financial gain in 2016 was HUF 11,812 million, reflecting an increase of HUF 20,119 million when compared to a net financial loss of HUF 8,307 million reported in 2015.

At year-end Forex assets and liabilities were reassessed and reported under Unrealised financial items. The balance of revaluation was HUF 5,694 million gain in the reported year, HUF 11,700 million higher than the HUF 6,006 million loss in 2015. The significant loss on the revaluation of trade receivables in the reference period was attributed to the devaluation of the Russian rouble and Kazakh tenge. Conversely, in 2016 the higher closing rate of the rouble (23.2% appreciation against the forint) resulted in a significant profit from the currency translation trade receivables item.

The 2016 gains on the trade receivables and payables reported in Realised financial items was HUF 2,670 million. The main source of the gains is the strengthening of the rouble against the forint in H2 of the reported period compared to H1 while the combined effect of the other main currencies was insignificant. Dividend received contributed HUF 2,792 million and net interest income contributed HUF 1,739 million to earnings. The change of the fair value of the "exchangeable bond" option connected to MNV bond was HUF 1,016 million.

	2015 HUF million	2016 HUF million	Variance HUF million
Unrealised financial items	**(6,568)**	**4,679**	**11,247**
Reassessment of currency related trade receivables and trade payables	(5,984)	3,658	9,642
Reassessment of currency loans given	1,360	(148)	-1,508
Reassessment of borrowings	243	245	2
Reassessment of other currency related items	(1,625)	1,939	3,564
Liabilities from deferred purchase price, time value change	(573)	(948)	-375
Unrealised forward contracts as of 1 January *	(6)	(17)	-11
Unrealised forward currency related contracts as of the balance date *	17	13	-4
Impairment loss on investments	-	(63)	-63
Realised financial items	**(1,739)**	**7,133**	**8,872**
Result of forward exchange contracts	621	-	-621
Exchange losses/gains realised on trade receivables and trade payables	(2,867)	2,670	5,537
Foreign exchange difference on conversion of cash	(1,062)	218	1,280
Dividends	1	2,792	2,791
Interest received	2,641	2,566	-75
Interest paid	(1,160)	(827)	333
Other	87	(286)	-373
Net financial income	**(8,307)**	**11,812**	**20,119**

* Contains only the result of the net settled (settling through mark to market procedures) forward exchange contracts. Gain and loss of delivery fx deal is presented as "Foreign exchange difference on conversion of cash".

Closing rates applied in revaluation:

	31.12.2015	31.03.2016	30.06.2016	30.09.2016	31.12.2016
EURHUF	313.12	314.16	316.16	309.15	311.02
USDHUF	286.63	276.62	284.29	276.35	293.69
RUBHUF	3.88	4.09	4.43	4.36	4.78
CHFHUF	289.38	287.25	290.57	285.25	289.41

Profit before income tax

The 2016 profit before income tax amounted to HUF 68,226 million, HUF 8,349 million higher than in 2015.

As of 1 January 2012 Gedeon Richter Plc.'s 100% corporate tax incentive ceased. Henceforth the parent company pays taxes in accordance with the general Hungarian provisions on taxation, however, it is entitled to write off the direct costs of R&D from its taxable income and 50 % of royalties received. Furthermore, the parent company utilized the development related tax allowance in conjunction with the Debrecen biosimilar plant

investment in 2013. The unexpected economic troubles of 2014 (Ukraine crisis, devaluation of the rouble) had a negative impact on the Company's finances, therefore in 2014 it did not utilise the development related tax incentive. The outstanding tax incentive facility was again used from 2015. Other Group companies are taxed in accordance with the general taxation regulations of their domicile.

Profit for the period

Profit for the period was HUF 67,023 million in the reported period, HUF 13,160 million above the 2015 Group profit.

After a HUF 12,337 million increase, profit attributable to owners of the parent was HUF 66,200 million by the end of December 2016, and was 17.0% of the sales revenues as opposed to 14.7% in the reference period.

3. Functional activities of the Group

3.1 Research and development

Innovation and the research of proprietary drug molecules have been key elements in the parent company's strategy since its foundation in 1901. Gedeon Richter Plc is the only Hungarian-based pharma company today with R&D staff exceeding 1000 and is the most significant pharmaceutical R&D base in the Central and Eastern European region. R&D is focused on three strategic areas: research and development of new small molecules, biotechnology and generic research and development.

Small molecular R&D is focused on women's healthcare products on the one hand, and molecules effective in treating CNS diseases on the other hand. In the latter category, in addition to cariprazine, Richter currently has two products in the clinical phase.

The Company continued to handle cariprazine related activities as a priority in 2016. On 17 September 2015 FDA granted approval of cariprazine for the treatment of manic or mixed episodes of bipolar I disorder and schizophrenia in adults. From the first quarter of 2016 the product will be sold in pharmacies of the United States under the trade name of

Vraylar™. The clinical trials continued with Richter's American partner Allergan (formerly Forest Laboratories, Inc.) as a result of which the product will hopefully be granted marketing authorization for the treatment of other diseases such as major and bipolar depression. As a result, in March 2016 the European Medicines Agency (EMA) started assessment of the marketing authorisation of cariprazine for the indication of schizophrenia. In August of the same year Richter and Recordati signed an agreement granting Recordati exclusive sales license for the product in Western Europe as well as Algeria, Tunisia and Turkey.

Our Japanese partner Mitsubishi-Tanabe Pharma Co. continued regulatory consultations and clinical development in the interest of launching its cariprazine product in its geographical area as soon as possible.

One of the world's leading manufacturers of steroid products, Richter has been traditionally strong in the women's healthcare market. As a result of the acquisition of the Swiss company PregLem S.A. in 2010 the Group has also been active in women's healthcare development primarily in the field of uterine myoma indications. According to Richter's announcement on 27 February 2012, Esmya, a proprietary product developed by PregLem S.A., a company solely owned by Richter had been granted marketing authorisation for the EU member states for its indication of pre-operative treatment of uterine fibroids. At the end of 2013 the EMA adopted a positive opinion regarding the use of Esmya to up to two courses of treatment. As a result, marketing authorization of the product extended for this indication was granted in January 2014. In May 2015 EMA extended marketing authorisation for its indication of in the long term management of uterine fibroids. The extension is an opportunity for long term medication in the management of uterine fibroids and possibly helps to avoid surgical intervention. In a joint press release in May 2016 Richter and Allergan plc announced positive results from the Venus I pivotal Phase III clinical trials that confirmed the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids. Application for registration of ulipristal acetate is expected to be submitted to the United States Food and Drug Administration (FDA) in the second half of 2017.

The product has already been commercialised in Canada for three years under the name Fibristal and the Canadian drug agency also approved its long-term application in November 2016.

As has been the case so far, the Company considers it essential to identify R&D partners for cooperation. We join forces with academic and university institutes, as well as the Finnish firm Orion in the early stages of our research activities. Other partners from the pharmaceutical industry are involved primarily in the clinical phases. In an effort to strengthen our women's healthcare portfolio Richter has signed development collaboration agreements with several companies (for example. Evestra). Richter Group intends to expand the scope of collaboration in the coming years.

Richter Group's development activities are undertaken by four members: the parent company, Gedeon Richter Polska, Gedeon Richter Romania and Richter-Helm BioLogics GmbH & Co. KG. Allocation of tasks to the development sites is determined by the development and business development concept, taking into consideration availability of capacities, patent conditions and the need for specialized skills. The Group's Indian member Richter-Themis is active in API development.

At the close of 2016 Richter had over 42 generic development and 17 licence topics in progress. In the course of the year Richter had 36 renewal and maintenance projects, while support of original and transfer projects slightly decreased compared to the reference year's level (10 projects in total). As biotechnology and original development projects are conducted predominantly at the parent company, development sites of the subsidiaries have been appreciated as regards generic R&D (Gedeon Richter Romania S. A., Gedeon Richter Polska Sp. z o. o.), These companies undertake over a quarter of the generic R&D projects.

The Company launched four proprietary products and ten licensed products in 2016, all of which are new in the markets where they were launched.

As a result of registration activities a total of 53 marketing authorizations were granted to Richter in 2016 in the EU, including Hungary (taking different dosage forms into consideration). The positive assessment of teriparatide and the submission, in March 2016, of the application for the European registration cariprazine, the result of which is expected in 2017 - both in the context of centralised procedures.

In this region 106 renewal applications were submitted, 125 were acquired by the Company, and 63 licenses were returned.

A total of 39 new authorizations and 302 renewal applications were submitted in the twelve CIS countries, Richter secured 30 new authorizations during the year.

In the Other countries region the Company submitted 112 new applications and 30 renewals in 2016. In the course of the year the Company secured 28 new authorizations and 37 renewals, and withdrew 12 applications for authorisation.

Biotechnology

To bring development and manufacture of biosimilar products to new heights the Company set up an independent organisational unit named Biotechnology Business, which has been in operation since 1 July 2016.

In 2004 Richter launched its recombinant biotechnology R&D by creating a biotechnology research laboratory. In Germany Richter and Helm AG jointly acquired the predecessor Richter-Helm BioLogics GmbH & Co. KG in 2007, which develops and manufactures pharmaceuticals based on proteins derived by microbial biotechnology processes. Started in 2007, the construction of the Debrecen plant creating capacities for mammalian cell biotechnology based pharmaceutical manufacturing was concluded, the related assets were capitalized. Trial runs commenced in 2012, followed by production for clinical trials in 2014; thus, the most complex protein-based pharmaceuticals can be manufactured on a commercial scale. In the course of 2015 the last clinical trials of two biotechnology products, pegfilgrastim and teriparatide were successfully concluded and in the autumn regulatory applications for marketing authorization for both products were submitted to EMA. In November 2016 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion, and accordingly proposes the granting of marketing authorisation for the biosimilar teriparatide Terrosa. Following on the positive opinion on 4 January 2017 the European Commission granted marketing authorisation for Terrosa. In December 2016 Richter withdrew the application following the CHMP's notification in November that the data submitted were not sufficient for a positive evaluation of the risk/benefit analysis related to the product. In October 2016 Richter signed an agreement on the technology transfer to manufacture trastuzumab, a

monoclonal antibody developed by DM Bio of Korea, and on taking over the licence of development and commercialisation.

Development and distribution of biotechnology products is supported in Europe by Stada, in Japan by Mochida, and in Korea by DM Bio in the context of cooperation agreements.

3.2 Quality assurance

The Company continued the major investment programme commenced in previous years with a view to safeguarding the products' superior quality. In the course of creation of new facilities as well as refurbishments rigorous quality assurance criteria are observed from planning to commissioning, which ensures that the products manufactured in the new or upgraded facilities fully meet international quality standards in every respect.

In 2016 the main direction of the quality assurance effort was the continued upgrading of production processes in accordance with the current Good Manufacturing Practice cGMP (API and finished products), and quality assurance support to a number of ongoing investment projects (the Debrecen biotechnology project and the Dorog Steroid Plant).

Ensuring compliance with the Good Laboratory Practice (GLP) and IT GXP, as well as supporting quality management of the subsidiaries continues to be a priority task. In 2016 special emphasis was laid on enhancement of the quality assurance system focussed on the upgrading of production processes and improving their transparency, as well as on further development of the IT system.

Similarly to previous years, Group companies had regular inspections by the locally competent authorities in 2016; in addition, the partners conducted 18, and the authorities another five inspections at the parent company.

3.3 Production

Production in the manufacturing plants was in line with the amounts required by the market; measured in terms of packaging units, the output of plants was somewhat higher (1.7%) than the reference year level for the Group as a whole.

As regards finished products manufactured by affiliated companies, both the Romanian and the Polish company achieved higher numbers in terms of packaging units. The Russian subsidiary's increasing volume of production is the result of technology transfers and outsourcing of production.
The utilisation of capacities of the Indian API and intermediate product manufacturing company did not change significantly.

Cooperation between the parent company and the subsidiaries that are active in the pharmaceutical production business has been intensive and involves an increasing number of products; in addition to manufacturing own-produced products, it takes the shape of product transfer, sourced production and development; as a result, the Group's Polish, Russian and Romanian members are becoming reliable sourcing companies.

3.4 Technology

In recent years the Company has developed a new sourcing management system and separated special procurement tasks from the professional activities of the management of the various organizational units, In the new structure all machines, equipment, technological materials and general devices as well as some of the services are sourced centrally. The same applies to utilities such as natural gas, electricity and steam supply, as well as waste disposal. Similarly to the preceding year, optimization of centralized sourcing resulted in substantial savings on funds, capacities and time in 2016. In certain areas of sourcing the parent company and its subsidiaries cooperated successfully.

Environmental protection, occupational health and safety

Operating in accordance with environmental standards is a priority for Richter Group particularly in countries where the Group has production facilities.
The Budapest premises, as well as the Dorog and Debrecen sites have secured an Integrated Pollution Prevention Control (IPPC) permit.
The 2016 audits of the Environmental Management System (KIR-ISO 14001) and the Occupational Safety and Health Management System (MEBIR-MSZ 28001) by the supervisory agencies, as well as the certification of the Safety and Environmental Labs

were successful and proved that internal audits, education and training, regulations, performance evaluation, risk management and occupational hazard measurements are appropriate and in keeping with the rules and regulations. For the first time, in 2016 certification also included the Debrecen Branch.

Environmental and security related expenditure were at the 2015 level in the reported period.

There were no technology related fatal, serious or mass accidents in the course of the year of reporting, no deficiencies of note were found by the relevant authorities, and no fine was imposed. Employees apply individual protective devices on an ongoing basis.

Operation of the production subsidiaries is in full conformity with the environmental, health and safety regulations, as proved by regular inspections by the competent authorities.

3.5 IT support

The Group's business processes are captured in the SAP system. SAP tracks every step of the process from sourcing to sales and provides interfaces to other special systems supporting operation. Over the past years, major Group level IT development took place primarily in order to achieve the most important strategic goal of creating a central IT architecture that controls and supervises Richter Group's IT systems and is suitable for communicating Group level strategy and control and serving operation.

IT infrastructure development has been in keeping with Group-level needs; the emerging IT background is a uniform and transparent system for Group users. A dynamic VPN network created between Group companies overarching the Internet network provides access to distant systems via audio and video connection as necessary.

Similarly to the previous year, major Group level IT development took place in 2016, the most important achievements and events were as follows:

- The biggest SAP project in 2016 was the version update, Conversion to the new version was successful and did not cause any significant disturbance in Richter's operation,

- As of 2017 the parent company will apply the IFRS, Depiction of the accounting, sales and controlling processes in SAP in compliance with the IFRS was another a priority task for 2016,

- The Serialisation, Track and Trace project was launched; its goal is to install a unique bar code writer and reader in all production lines of Richter Group,

- In the context of the IT development started in 2016 Richter's German company Richter-Helm BioLogics GmbH & Co. will introduce the SAP FI, CO, AM and MM modules.

- The IT support to Quality Assurance commenced in 2014 continued with several projects in progress,

- This year further development and upgrading to later versions of existing systems took place in several areas (commercialisation, research and logistics),

- IT infrastructure development aiming to serve the Company's growing data storage needs engaged a considerable amount of capacities in the course of the year,

4. Human resource

One of Richter Group's strategic goals is to develop operability with an organization that is best suited to changing environment, tasks and even greater challenges. Human resource, the people who are at the basis of Richter's continued success in business and science play a key part in this effort.
Careful recruitment policy is critical for enhancing and sustaining the performance of each member of Richter Group. Supporting the professional development and improving the quality of life of staff and retention of high performers are priority tasks.

As of 31 December 2016 the Group's closing headcount was 11,892, 7,979 of whom work in white-collar positions including 6,806 university or college graduates. The closing headcount of the parent company was 6,728 at the same time.

5. Capital expenditure

The Group's capital expenditure and intangible assets amounted to HUF 36,453 million in 2016 as opposed to HUF 33,302 million in 2015. Capital expenditure was dominated by the projects deployed by the parent company.

A Molecular Biology Lab will be constructed in Debrecen in the context of an application for funds tender. The conceptual plans and the plans to be submitted with the application for a planning permission have been completed. At the Budapest biotechnology R&D unit significant amounts were spent on the procurement of equipment.

In the field of traditional finished products manufacturing, project RGK VI was continued at the Group's Budapest production site; it envisions a greenfield development of a new, state-of-the-art freeze-drying unit, an injectables packaging plant, as well as high rack warehouses ancillary to these new facilities, and land for development purposes. The building has been erected and building installations and technological pipe fitting have been completed. Currently the commissioning of the filling and freeze-drying line is in progress. In the field of API manufacturing, capex projects were basically aimed at maintaining production capacities in both Budapest and Dorog. In Dorog an important, multi-year project in progress in Steroid Plant II envisions to expand intermediate product and chromatography capacities.

Environmental and safety projects included the upgrading of the wastewater system in Dorog as well as energetics projects to upgrade central systems in order to improve safe energy supply.

Major capex projects of the subsidiaries included expenditures on production companies. After the completion of capacities expansion at the Russian subsidiary, the next important capex project was the procurement of production equipment including specifically the machines and instrument necessary for the packaging of Panangin tablet. At the Romanian subsidiary the ground floor production area was upgraded, which included the relocation of the microbiology laboratory and landscaping on the premises (pavement of roads, upgrading the water and wastewater networks, and replacement of the firewater system).

6. Risk management

During the year Richter Gedeon Plc. completed a company-level risk assessment in-line with its risk management policy. As part of the risk assessment the Company has identified its relevant strategic, operational, compliance and financial risks following the risk management approach elaborated with a consultant, The identified risks have been evaluated by the management of the Company.

The following risks proved to be the most typical in each category based on the assessment.

Strategic risks

Risk	Description	Key risk management methods
Macroeconomic Factors	The impact of changes in macroeconomic factors affecting the company's markets with special regard to the deterioration of solvency due to the continued Russia-Ukraine crisis and chronically low oil prices	- Monitoring changes in major macroeconomic factors, incorporating their effects into the planning - Tightening cost containment and customer relations - Flexible utilisation of local production capacities
Competition and Pricing	The impact on the company's market position and results of decreasing prices resulting from mounting generic competition	- Identifying competitive advantages - Focusing on new proprietary and value added products - Launching new generic products - Regularly performed industry and competitor assessment and effectiveness analysis
Healthcare Budget	Potential impact of negative changes in the healthcare budget and regulation (price cuts, increasing industry surtaxes, subsidy cuts and protracted procedure to accept subsidy applications)	- Regular analysis of market environment, monitoring changes in the legal and pharmaceutical subsidy system - Communication with authorities - Cost management adaptation

Operational risks

Risk	Description	Key risk management methods
Development of original and biosimilar R&D and production	Risk attached to the success of proprietary research and of the development and manufacturing of biosimilar products	- Focusing on CNS R&D and gynaecology development - Determining milestones of original research and biosimilar development - Assessment of programs and decision-making according to international standards with the involvement of advisory bodies and international experts - Involvement of collaborating partners to reduce risk and ensure co-financing
The complexity of the Group's activities is increasing, more diversified markets	Risks related to the development of specialized sales and marketing support of women's healthcare products in Western Europe, China and Latin America	- Company-level projects for the acquired women's healthcare portfolio, the integration of Finox Group, and the coordination of the launch of Esmya - Strengthening market positions and the marketing network in Western Europe - Developing the company's own marketing network in Latin America - Increasing stakes in Chinese and Latin American investments
Qualified Workforce	Risk relating to retention of employees in key positions and ensuring qualified workforce	- Periodic revision of HR strategy - Training plans, career and succession programs - Incentive and performance assessment system - Determination of optimal headcount - Staff replacement to improve quality; retention of staff performing high-quality work

Compliance risks

Risk	Description	Key risk management methods
Regulatory oversight High quality standards required by customers	Risk of non-compliance with relevant regulations relating health and quality More frequent inspections due to proprietary product launches	- Implementing Quality systems and Standard Operational Processes (SOPs) - Monitoring compliance with health authority regulations - Special projects to prepare for inspections
Intellectual Property, Patents and Litigations	Risk relating to patents and patent rights	- Continuous assessment and monitoring of intellectual property and patents - Enforcement of intellectual property rights - Conclusion of risk mitigation agreements
Contracts and Liabilities	Risk relating to managing contractual liabilities and enforcing contractual terms	- Centralised contracting processes - Special treatment of unique contracts - Introduction of a global compliance program

Financial risks

Risk	Description	Key risk management methods
Credit and Collections	Risk relating to collection of cash and receivables from customers Region-specific risks related to customers	- Customer rating and establishing payment terms and sales limits - Regular review of receivables - Increasing insurance of CIS customers' credits with MEHIB
Foreign Exchange Rate	Exchange rate risk management in the changing currency structure	Calculating annual open FX positions and monitoring key FX rates
Capital Structure, Cash Management and Financial Investment Taxation risks	Risk related to the management of the Company's cash needs and cash funds Maintaining security of funding besides acquisition expenditure	- Developing and monitoring cash-flow plans - Financial Investment Rules to manage investment risk - Introduction of a Cash Pool system - Preparation for a tax relief related audit by the tax authorities

7. Post-balance sheet date events

On 4 January 2016 Richter announced that the European Medicines Agency (EMA) has accepted Richter's regulatory submission for the proposed biosimilar teriparatide with the reference product of Eli Lilly's Forteo. The biosimilar teriparatide has been developed by the Company's subsidiary Richter-Helm BioTec GmbH & Co. KG. According to the relevant license agreements, biosimilar teriparatide is expected to be launched under both Richter-Helm BioTec GmbH & Co. and Stada labels in geographical Europe following the patent expiry of the original product. On 14 November 2016 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion on the product and accordingly proposes the granting of marketing authorisation for the biosimilar teriparatide Terrosa. Following on the positive opinion on 4 January 2017 the European Commission granted marketing authorisation for Terrosa.

On 17 January 2017 Richter and Allergan plc announced positive results from Venus II, the second pivotal Phase III clinical trials. The trial investigated the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids causing irregular uterine bleeding and confirmed the result of the Venus I study published in May 2016. Application for registration of ulipristal acetate is expected to be submitted to the United States Food and Drug Administration (FDA) during the second half of 2017.

On 19 January 2017 Richter announced that it had signed an agreement with Allergan plc for the distribution of Allergan's levonorgestrel releasing Intrauterine System. Richter will distribute the product under the brand name Levosert® in Western Europe and other European countries. The product has already been granted national marketing authorisations in Western and Northern European countries, and has been launched in most countries by Allergan, Richter is currently selling Levosert® in most CEE markets in accordance with the relevant agreement signed with Uteron Pharma in 2011. According to the agreement Richter makes a milestone payment upon signature. After the product is launched, Allergan will also be entitled to sales related royalty and milestone payments.

In early 2017 Richter and Bayer reached an agreement on reimbursement of the costs of inventories in conjunction with the withdraw of Lisvy.

The Accounting Act provided for the mandatory application, as of 1 January 2017, of the International Financial Reporting Standards for the purpose of stand alone financial statements for companies whose securities are traded in the regulated market of any of the EEA member states. Pursuant to this provision, from 1 January 2017 Richter must apply the IFRS for the purpose of financial reporting. From 1 January 2017 Richter prepares its reports and statements in accordance with its stand alone IFRS.

After acquiring the remaining 9% share in February 2017 Richter became 100% shareholder of GRMed Company Limited. With this payment the Company has fully paid the deferred purchase price kept on the books among liabilities.

The management is not aware of other post-balance sheet date events that might be material to the Company's business.

8. Future outlook

Retaining and strengthening the Group's position in the Hungarian and the traditional markets (CIS, Central and Eastern Europe) despite increasingly difficult environment whose problems fall hard on the entire pharmaceutical industry (price erosion, tightening subsidies and price control) continue to feature among Richter's strategic goals.

The Group focuses on strengthening its presence in, and increasing exports to, European Union, primarily in the EU15, and China, retaining and strengthening positions acquired in the United States, and developing new long-term research and development cooperation with existing and new partners.
The main tool to achieve these goals in the context of Hungary, the CIS and the European countries is to improve the efficiency of Richter's sales networks. In Western Europe and the United States the strategy is implemented through long-term agreements concluded with strategic partners. Through a variety of acquisitions Richter is directly present in the world's fastest growing pharmaceutical markets (China and the Latin American region).

The success of proprietary research and development aimed at CNS products is crucial for Richter Group's future and for strengthening its market positions. The second pillar of the specialty strategy is the expansion of the women's healthcare portfolio. The future added value from the women's healthcare portfolio acquired in 2010 from Grünenthal, coupled with Esmya resulting from the Swiss acquisition and Bemfola acquired in 2016 to treat infertility will boost the Group's niche: gynaecology, which is best supported by the units operating in the traditional markets and through the newly established Western European marketing network. The Group's ongoing objective is to achieve faster growth and to present higher rate of annual sales in its special niche of oral contraceptives and steroid-based women's healthcare products - in 2012 this line was completed with Richter's original product Esmya and in 2016 with Bemfola.

The third pillar of the Group's "specialty" strategy is the development of biosimilar products and the high-value investment to create conditions for their manufacture.

Besides the above, Richter is striving to exploit the opportunities provided by marketing the portfolio of traditional products to a maximum extent.

In order to ensure and increase sales and profitability, another priority task for the future is the improvement of research and development and the Company's organizational functioning in all areas of operation on an ongoing basis.

GEDEON RICHTER

Established in 1901

DECLARATION

The undersigned **Erik Bogsch** as the managing director of **Chemical Works of Gedeon Richter Plc.** (registered office: H-1103 Budapest, Gyömrői út 19-21., Reg.No.: Cg.01-10-040944) /hereinafter Company/ representing solely the Company, in accordance with Annex I. Sec. 3.4.-3.5. of 24/2008. (VIII.15.) Ministry of Finance Decree hereby

declare

(1) that the 2016 annual consolidated financial statement, which have been prepared to the best of our knowledge and in accordance with the applicable set of accounting standards and approved by the Annual General Meeting of the Company, gives true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole, and

(2) that the consolidated business report prepared by the Board gives a fair review of the position, development and performance of the Company and the undertakings included in the consolidation taken as a whole, together with the description of the principal risks and uncertainties; further

(3) that the Company, as issuer falling under the effect of Article 4 of EC Regulation No. 1606/2002 on the application of international accounting standards, prepare its annual consolidated financial statement in conformity with the accounting standards published in form of regulation in the Official Journal of the European Communities.

Date: Budapest, 26th April, 2017

Erik Bogsch
Managing Director